

## Y 2019 Earnings Call

### Company Participants

- Bard Stenberg, Senior Vice President of Investor Relations and Corporate Communications
- Berit Osnes, Executive Vice President, New Ventures
- Gottfred Langseth, Chief Financial Officer
- Nathan Oliver, Executive Vice President, Sales & Imaging
- Rob Adams, Executive Vice President of Operations
- Rune Olav Pedersen, President & Chief Executive Officer
- Unidentified Speaker

### Other Participants

- Anne Gjoen, Analyst
- Christopher Mollerlokken, Analyst
- Mick Pickup, Analyst
- Sahar Islam, Analyst
- Unidentified Participant

### Presentation

#### **Bard Stenberg** {BIO 19147078 <GO>}

Good morning, and welcome to our Capital Markets Day and Q4 Presentation. My name is Bard Stenberg, Senior Vice President of Investor Relations and Corporate Communications in PGS. We are arranging this Capital Markets Day in cooperation with the Norwegian Association of Financial Analysts. And with us today we have two moderators, that is Glenn Lodden from Nordea Markets; and John Olaisen from ABG. They will host us through the two Q&A sessions and also manage the questions from the people on the web.

The agenda for today is showing on the screen. So, President and CEO, Rune Olav Pedersen, will start with the market perspectives. Then, Gottfred Langseth, CFO, will continue on with the Q4 financials and CMD financials. Then we will have a Q&A and a coffee break. After the break, we will continue on with our three business areas.

Before we start, I would like to give some practical information. As we are webcasting this event, I kindly ask the audience in Oslo to use the microphones provided when asking questions. Please also take notice of the cautionary statement showing on the screen, and available in today's material.

There is no fire drills planned. So for the audience in Oslo, if the sound is -- alarm is sounded, please evacuate immediately. I would also remind those of you that have signed up for the lunch, that lunch is served just outside after we are done with the last Q&A session.

So with that, it's my pleasure to give the word to CEO, Rune Olav Pedersen.

## **Rune Olav Pedersen** {BIO 16158611 <GO>}

Thank you, Bard, and welcome once again to our 2020 Capital Markets Day. In my presentation, I will go through following outline. I'll touch on 2019 highlights, the PGS strategy, before going into market perspectives. And here I will start on the macro level and then move into how that impacts the seismic market and how we see the outlook into 2020. I will also speak a little bit about our digital transformation, the journey we have started to digitize many of the services in PGS, and I will touch on ESG before going to guidance and summary. So that is what you can expect for the next approximately 25 minutes.

So 2019 highlights. 2019 was in particular characterized by a significant contract price increase. As most of you know, our contract prices in '19 were approximately 40% higher than the average price we achieved in 2018. And that in spite of the fact that when I stood here last year, our order book was not very high. In fact, it was quite low. But at the time we saw good leads, there were good tendering activity and we had started to win work at a higher price, and we also saw that the 4D market would be quite active into 2019, and this is a market where we can take premium rates and where we have a very strong market position. So through 2019, we were able to take advantage of our differentiators and our integrated strategy and deliver very strong improvements in the contract space, although from low levels.

2019 also characterized by increasing visibility. Our order book increased significantly during 2019 into Q1, Q2, Q3, it was very high and then still quite high. Our order book now is almost double that of what we saw last year at the same time. Also, those of you who are -- who were here last year will remember that we predicted that we would run seven of our eight operational vessels in this winter season Q4 '19, Q1 '20. We have ended up running all eight of our operational vessels because of higher demand for our services than what we expected. And we continue to see strong outlook into 2020 both for our contract services and for MultiClient.

2019, we delivered solid free cash flow generation, obviously driven by continued market improvements and things I've already touched upon. We reduced our net debt by approximately or by close to or very close to \$102 million. We increased our liquidity reserve by \$51 million. And not in '19, but in January 2020, we reached an important milestone for the Company. We were able to fully refinance all our debt maturities in 2020, 2021. This had strong stakeholder support and is very important for the Company. It allows us now to focus solely on operations, the market and how we are going to attack it, because we have long-term financing in place. This financing is also quite important from a strategic point of view because it allows us to use the cash flow we will generate from our operations and repay debt without any call premium or fee. So it is a strategically

important structure we have put in place which Gottfred will come back to in more detail later.

And as I indicated in my outline, 2019, we started our digitalization journey. We have hired a small team within PGS, which has as its task to coordinate and initiate digitalization processes and projects in the line and you will hear from my EVPs today how some of these projects have already started to run and what we expect to see from this journey going forward.

PGS, during this year, have become the only integrated service provider in the marine streamer seismic market, meaning we own vessels, we have an imaging department, we have an R&D department and we operate both in marine contract and MultiClient. This has allowed us to come closer to quite a few of our customers because we can deliver everything. Our customers are not so concerned about business models. What they want is data that can solve their issues, their geological challenges, and therefore we provide full flexibility in that respect.

So this is a snapshot of how the market looks. You have the MultiClient market players, TGS, CGG, and WesternGeco. They have imaging capabilities as well and some of them do R&D within the imaging space. And then on the other side, the right side, you have the contract players, which we call them here. They are vessel owners with stated strategies of not going into the MultiClient space and they typically do not have any imaging department, and to a very little degree, any R&D. And then PGS in the middle with everything.

So what does that give us? First of all, which I touched upon, it gives us flexibility with business models. It doesn't matter to PGS whether a project is characterized as MultiClient or characterized as contract. As long as it makes financial sense to us and it solves the clients' issue, we're happy to do it. During 2019, we have done several projects where we have mixed and matched. We have changed contract tenders into a larger MultiClient, where we should also the little stamp that the people wanted shot as a contract, but we take that as pre-funding, give that data to the client and we keep the rest as MultiClient.

We have done what you would typically call typically would be a contract as a starting point, where we have MultiClient permits, so that we can shoot seismic a year before they otherwise could have done. And then we could shoot a bigger area and get very good pre-funding. So we mix and match these things all the time. And that has become clearer through 2019, and quite important part of our strategy. Secondly, we have focused quite a bit on faster delivery. When I was here last year, we told you that it is an aim for PGS to be able to deliver data much quicker. The time from planning a survey to final delivery of data should be shorter. And as you will hear later in the presentation today, we have cut that time quite significantly, and we've done that by prioritizing [ph] several of our tasks. And that is of course easier to do when you control the whole supply chain.

And we do R&D and we do R&D in the acquisition and imaging space, and we're the only company who does that, because if you're going to change in acquisition parameters,

longer streamers, wider sources or whatever you want to do, you need to understand what does that do with the image. And then you need an operations department, and you need someone to understand what that does for the image, namely an imaging department, and we have an R&D department in the middle, it takes full benefit of that, and you will hear today one of the examples of that, that we have done in 2019.

And finally, in 4D, you will hear that we still have a very strong position in 4D and part of that is obviously because we can offer both imaging and acquisition. So many benefits from being an integrated provider.

So with that, our strategy remains the same. We will focus on MultiClient, we will focus on 4D, keep on reducing the turnaround time, we'll focus on joint acquisition and imaging approach, as I've spoken to. R&D, we'll focus on imaging and acquisition solutions together where we can differentiate from everyone else. And we will leverage the fleet productivity, the Ramform platform and the GeoStreamer system.

The financial strategy remains the same and it will remain the same in an improving market. We will focus on profitability before growth. We will focus on return on capital employed. It is improving. It will continue to improve. And it is our aim to get to a capital structure, which can sustain future downturns and we have said and we're clear on that. That means we need to have a lower debt level than what we have today. So we will use the free cash flow we generate over the next years to reduce our debt. These things remain the same.

So before I go into the market, I would like to explain one change in the executive management team. Former EVP of Operations and Technology, Per Arild Reksnes, retired at the year-end and he is replaced by Rob Adams as the new EVP for Operations, and you will see and meet Rob later today. Rob has 21 years of experience in PGS from almost all sides of our business. So he is well capable of taking on this role and he comes from the role of Senior Vice President of New Ventures with global responsibility for new MultiClient products.

So, the market, and I said, I would start a little bit of macro and I mean that because economic expansion is the key driver for energy demand. Any serious research you read about what will happen to the world economy after 2040 will have a fairly large increase in GDP. This is from Exxon's 2019 Energy Outlook and they have nearly a double of GDP -- world GDP after 2040, which obviously drives energy demand. And it's difficult to know which scenarios are you going to believe in, you can hear of scenarios which will reach to the two degree level where we are able to as a world cut our carbon emissions and reach our targets and you will hear about other scenarios, which will not get you there where energy drives continues to drive.

What we have seen here is from BP's 2019 Energy Outlook, and they have four different scenarios. What is interesting to observe is that in all four scenarios, all four, the demand for oil and gas in combination is higher than the demand for oil and gas in 2017, in all scenarios. Also, in the what they call the rapid transition scenario, which is characterized by obviously a fairly rapid transition into renewable energies, and a sharp reduction in

coal. But even then, we will see that the combined use of oil and gas in 2040 is higher than what you see in 2017.

So there is a growth in the demand for oil and gas over the next 20 years. That seems fairly clear. But more importantly than the growth for oil and gas is actually this -- the decline rates, that's where the real story is. And this is from EA, they have a oil naturally declining at 7% per year and gas naturally declining at 5% per year, and they predict in their two most optimistic scenarios, optimistic from a carbon emission point of view, that the world will need to invest between \$13 trillion million and \$20 trillion million in oil and gas to meet the demand gap we see -- or the supply gap -- sorry, I should say, we see in 2040. That is a lot of money and a lot of investments that is needed in the oil and gas industry over the next 20 years.

So the question that one should ask oneself is that, is shale going to to fill this gap? Is there a need for offshore? Well, our answer is, we don't believe shale can fill this gap, and the -- here what you see here on this graph is the oil production from US shale in the green line which points more or less straight up and it's drilled wells in the light blue bars and completed wells in the dark blue line. And what you can see over the last two years is that there is a decoupling between production and drilled wells. This is -- there is two reasons for it, more efficient wells, I would say, and also that companies are eating into their inventory of uncompleted wells -- drilled, but uncompleted wells or DUCs. You can see that particularly towards the end of this part, last half year, I would say, where that has kept up quite high and then starting to drop dramatically.

We believe that it is not possible to continue this growth unless there is a change in the trend you see here in drilled wells and completed wells. That is just not possible. So we believe we will see a flattening out of this growth story, perhaps even a non-growth without any increase in oil price. One of the reasons is obviously that the investors in US are starting to demand not only growth, but also free cash flow, and at \$60 Brent, these guys aren't delivering free cash flow annually.

So what is that -- how does that equate to offshore? Well, what you see here is a free cash flow break-even in the light blue line converted to a barrel of -- Brent barrel oil price and you see free cash flow plus CapEx and dividend in the dark blue line and the actual Brent oil price in the green line. And this is for 10 of our largest companies or customers, I should say. Some of them obviously also have US shale in the mix, but this is predominantly offshore. And what you can see almost \$60 Brent, they are massively cash flow positive. So offshore is clearly quite competitive versus US shale and I think it's clear that up to 2040 to meet the demand gap, we need both US shale and we need quite a bit of investments in offshore. And then it's not surprising to see that most banks that predict anything about investments offshore predicted increase in offshore investments into 2020, more or less in line with what we saw in 2019. And I don't have it here. But most people also predict a reduction of investments in US onshore.

So you could almost, after I have spoken, say, well, why isn't it growing more than 4%? That we believe is due to capital discipline among our clients. I must say, our largest client has been surprisingly resilient when the oil price has gone up, their cash flow has been

quite strong, they've kept with their budgets and we expect them to continue to do so in 2020. And therefore, we expect what you see here a moderate growth.

And into the seismic market. How does that play? This is just a very rough estimate of or it is a detailed estimate of all the revenues for PGS, TGS, Spectrum, WesternGeco, CGG and Polarcus in the last three years and the change from the year before and what you see is three consecutive years of growth, while it's a rough phase is that there has been consolidation. So, you can't really compare apples-to-apples all of these revenues from year-to-year because someone's revenue is another man's cost and things like that, which plays into the numbers, but it still illustrates the point, there has been growth in the seismic market three years in a row and we expect that to continue into 2020.

MultiClient started to improve in 2017, you know, contract seismic for PGS became profitable in 2019. And the current seismic contract market trends is higher activity, higher pricing and an increased share of 4D, which we will show you later. Now you have to combine this with the status of the industry right now. Where are we right now? Well, booking, not only for PGS, but across the three vessel owners right now is very strong. So we expect activity to increase on the back of very strong bookings, that is different this year from last year where bookings were quite weak at this stage.

On the supply side, we expect supply to be marginally higher in 2020 than in 2019. And that is mainly because we do not expect us or our competitors to take vessels out of operations in the winter season. We see full activity now in the first quarter, which is different from '19 and we expect full activity in the fourth quarter. So therefore, you will see more of a smoothening out of the supply curve and then the absolute supply is somewhat higher. We still believe that the entire world fleet will be fully -- more or less fully occupied throughout the year. And as you can see, we are still a very long way from where we were only five, six years ago on the supply side.

So switching gear. I told you that we have started our digital transformation to accelerate our strategy execution and we've done it this year. We have signed a strategic agreement with Google Cloud, which is our preferred cloud partner, and a very important partner in this whole transition. We have initiated projects to do processing in the cloud to start getting our MultiClient library available in the cloud. We have started projects to see what we can do with all the data we collect from our vessels to do more efficient operations, use less fuel and things like that, and you will hear more about that as my colleagues go through it. And long term, we believe this will help us become more effective, it will reduce cost, it will allow us to bring more value out of the MultiClient library as you can start correlating the data in the MultiClient library with other data sources and start working with the data in a different way, which should generate value for our clients and for us.

And 2019 has been characterized, as I said, by contract prices, capital markets I would say, has been characterized by newly found focus on ESG or E I should rather say because it's about emissions to air. In PGS, we have focused on ESG for more than 10 years. We have sent out our corporate responsibility reports, but it is first now that the capital markets really take this on board. As we will show you, we have reduced our CO2 emissions by 30% for seismic like -- for seismic line kilometers over the last 10 years and we will

continue to do so because it's good and it makes good business sense. Fuel is one of our most important costs. So reducing fuel and therefore emission is obviously a target for PGS. Our digital transformation which we talked about has -- we have a project focusing on this right now just because where we can take the most out of it in terms of cost. We also, which you will hear about later, contribute to healthier oceans. We leave the area we go into, we leave that with no permanent environmental footprint. In fact, we actually clean it over there because we pick up a lot of frac, a lot of garbage. Not a lot of people using the oceans can say that. So we will continue to focus on safe operations with no permanent environmental footprint, and obviously we also work on the S social, we have worked with local communities, fisheries around the world for 10 years to be able to do our operations. And governance, we in PGS had an anti-corruption program probably before people in Norway have heard about what that was because we have been global and we've been working in exposed areas for quite a while. So governance is close to our heart as well.

Okay. Guidance. We estimate a Group cash cost of approximately \$600 million for 2020. We estimate that we will have MultiClient cash investments in the range of \$250 million to \$275 million in 2020, and we estimate that more than 50% of our active 3D vessel time will be allocated to MultiClient and we expect CapEx of approximately \$80 million, and why this is higher than what we achieved last year? It's because we are going to starting to produce new streamers in 2020.

So in summary, 2019 was another year with increasing cash flow for us, improving profitability and better return on capital employed. We had significant contract price improvement from a very low level, but into profitability. We had solid MultiClient sales, in particular I would say in the second half. We expect 2020 to be a better year for the seismic industry and for PGS than 2019. And we are going to continue to harvest and derive value both for our clients and for ourselves through the integrated business model that we deployed. And with that, I leave the word to Gottfred.

### **Gottfred Langseth** {BIO 5277539 <GO>}

Thank you. Please inform me if the sound isn't as it is supposed to. I will first make some comments to our Q4 and preliminary full-year 2019 numbers that we reported today, and are pre-announced on a couple of occasions already. Thereafter, I will go through some selected finance topics that belongs on our Capital Markets Day. 2019 ended on a positive note with the best Q4 since before the downturn. The seismic market continued to strengthen during the year and our numbers are significantly better than 2018. It is also also a year where our contract and MultiClient revenues twirled in opposite directions with a strong growth in contract, but a decline in MultiClient revenues after a record 2018, it should be said, That decline offset some of the growth we got from the contract side. On contract, our revenues more than doubled since 2018. We achieved close to 40% higher prices on average compared to 2018 and the improved market and higher activity level enabled us to continue operating eight vessels into and through the winter season.

For MultiClient, we had a slow start of the year, but performance significantly improved in the second half of the year. When it comes to order book, it almost doubled compared to the start of the year, evidencing market improvement and providing significantly

improved visibility for revenues. And finally, last week, we announced our -- I may say, long awaited refinancing, a solution that we are very satisfied with and which has received strong stakeholder support. Needless to say, I will revert quite a bit to more detail around that a bit later.

The improving market is clearly visible in our numbers. The 2019 segment EBIT is more than 2.5 times what we had in 2018. Order book is up by 98%. Cash flow before debt repayment, but after paying for IFRS 16 leases, increased from being marginally in positive territory to well above \$100 million in 2019. Our net interest-bearing debt was reduced by 9% during 2019.

This next slide shows the quarterly key numbers for the last three years. After Q1, which was unusually low on revenues and significantly impacted by substantial investment in new MultiClient surveys with low pre-funding, the quarterly performance have progressively improved with the fourth quarter delivering the highest quarterly numbers we've had in five years. And the same goes for the EBITDA and for the EBIT. Order book \$322 million at year-end, we are comfortable with our booking position as of a slightly later date, 23rd of January. We are fully booked for the first quarter. We are booked for 18 vessel months in Q2 and 10 vessel months in Q3.

This is the regular summary of our key financial numbers. I will not go through the details, just shortly, revenues for Q4 \$288 million as reported in our pre-announcement early January, that's an 18% increase from 2018. The Q4 EBITDA \$194 million is a 26% increase from '18 and the reported segment EBIT was a \$17 million for Q4.

Couple of comments on key or operational highlights, as you see from the graphics, sequential improvement in both contract and MultiClient revenues. The total MultiClient revenues for the quarter was \$177.3 million. On the pre-funding side, we had 157% pre-funding on \$41 million of investments in Q4, which brings the full year pre-funding to 105%. Late sales in the quarter, \$112.6 million, which is decent sales, but down from a record quarter Q4, the year before. Contract revenues \$103.9 million for the fourth quarter. This and to some extent the pre-funding impacted by more than usual challenges in mobilization of several of our large projects in Africa in Q4, mostly weather related, but there were also other matters outside our control. So these surveys were -- by year-end those challenges were not impacting us anymore. So otherwise, we would possibly have seen a bit of better numbers.

MultiClient revenue by region, Africa and Europe were the main drivers for the pre-funding in the quarter as whereas for late sales the most important areas were Middle East, Europe and Africa and you will see from the graphics that Q4 is a quarter where Middle East and Africa has a more significant role than what we've seen in a long, long time in the revenue mix.

Vessel utilization, we are moving towards pre-downturn utilization levels, not fully there. In the fourth quarter, we had 79% active time. Also, the utilization statistics impacted by schedule changes primarily and the challenging mobilizations that I already commented



on. For the full year, we had 80% -- 81% active time despite two vessels being seasonally warm stacked for the full first quarter.

Gross cash costs \$142 million in Q4, sequentially down from Q3 primarily since we have less direct project-related costs on the surveys that we do in the fourth quarter. For the full year, costs ended at \$580 million.

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On the cash flow, full-year '19 cash flow after -- or before financing activities of \$221.8 million. Cash provided by operating activities for the full year \$474 million; for the quarter, approximately \$95 million, significantly impacted by a revenue profile driven working capital increase in the fourth quarter, which practice meant that we didn't get full cash effect of our cash generation in the fourth quarter -- will correspondingly or should correspondingly benefit the start of 2020. The net working capital increase, and I should add for those who are deeply into the numbers on a segment basis, in the fourth quarter, was a bit over \$70 million.

Balance sheet. Gross interest-bearing debt at year-end \$1.091 billion and that is a reduction of \$136 million. Net interest-bearing debt \$1.007 billion, that's down \$102 million in the year, and a liquidity reserve of \$210 million, which is an increase of \$51 million.

That was my last slide on the Q4 numbers.

So I will move on to make onto selective topics in the finance area listed here. I will spend most of the time on the refinancing, but also cover projections for cost, CapEx, MultiClient investments as well as a little bit of foreign exchange and tax.

Bloomberg Transcript

Starting with the refinancing, we are in process of completing our refinancing. We will have a new term loan of \$523 million maturing in March 2024, so a bit over four years from now. Conceptually, the source of the \$523 million is two elements -- two sources. Firstly, we have achieved an extension of \$373 million of our existing \$377 million term loans as a 99% of existing lenders have extended. This is up from what we announced as a minimum last week. And the second part is an upsize or new money \$150 million from current or from existing and new lenders. In addition, we have extended \$215 million of our revolving credit facility by three years, so extended to September 2023. The term loan and the extension of the RCF has lots of conditions, but primarily two. Firstly, that we raise \$75 million minimum of equity and secondly that as part of the transaction we redeem the 2020 notes, \$212 million, both will be done. We completed last week successfully a book building for a private placement of \$95 million of new equity. This is subject to EGM approval scheduled for February 13, and after that, the transaction on refinancing will be closed or completed. We are contemplating a subsequent or offering a repair issue of \$10 million, also to be approved by the EGM. Maybe obvious, but the incremental term loan B, the \$150 million and the equity will be used to repay the 2020 senior notes and they will be repaid at par. So they would be called.

I have included a term sheet overview here. We've tried to go into too much details, but there are some details that may be important to note. I will focus primarily on the term loan B, which is the right hand side of this slide. So this is a floating interest rate loan, it is -

- the interest rate would be LIBOR plus a margin which is in the range of 600 basis points to 700 basis points or 6% to 7% depending on our leverage ratio. On our forecast, we should get to the middle of the margin range quite early now in 2020.

The loan is issued at a so-called OID or a discount of 2%. So in reality, the lenders -- the extending lenders and the new lenders, they get a 2%, call it upfront fee, which -- yeah, they get a 2% upfront fee, that was all I suspect, I wanted to say about that, to extend or to provide the new funds. Thirdly, the call protection schedule is a bit unusual, it starting with a call -- soft call of 101 [ph] for the first year and then it increases subsequent to that, you typically see that it reduces. It is important to note is that the call premium only applies if we call the loan in connection with the repricing event or a refinancing event. It doesn't apply to our mandatory or voluntary prepayments out of cash flow or available cash resources. So it can be repaid without being impacted by the soft call structure.

The TLB has a 5% annual amortization, but that kicks in next year. So it's from 1st January 2021. It also has an additional mandatory higher prepayment or amortization dependent on cash -- excess cash flows. So if we have excess cash flow after all debt service and after having deducted that sort of accrued but not paid taxes and committed CapEx and similar, a portion of that will be repaid on the term loan B.

Lastly, on the term loan and also on the RCF, there will be no dividend for the -- until the second anniversary of closing the transaction. So the loan agreement wouldn't allow us to pay dividend or approval or decide a dividend out of the 2020 numbers, but after 2021, that is down to the Company to decide whether a dividend should be paid for the year 2021 or not. And that will be then decided primarily from our sort of financial strategy and not by the loan agreement.

One last comment and then I will stop on this one, on the RCF side. RCF also has a margin grid. It is at slightly lower interest margins than the term loan, and this margin applies to the drawn in a way that interest rates relates to the drawn amounts on the RCF for the committed but undrawn or unused part of the RCF at anytime. We will pay a commitment fee of 40% of that margin shown in the term sheet.

Okay. This next slide shows sources and uses in relation to the refinancing and the new term loan deal of \$523 million and will together with the new equity, summarized on the left, top left, repay \$373 million of the existing term loan, leaving \$4 million left, that's maturing a bit over a year ahead. Redeem the notes and pay for fees and expenses and leave a little bit in excess. Note that when it comes to fees and expenses in connection with this transaction, significant part or a substantial part of that is the OID that I mentioned on the previous slide. So it's to the investors who is having discount at investing, and accordingly, similar extension or commitment fee to the RCF banks.

At the very bottom around middle of the table, you'll see that if we include this capital structure into our 1st January balance sheet, we would pro forma have a 2.0 times leverage ratio based on the full-year 2019 EBITDA. With this refinancing, the maturity profile is substantially improved 3.5 years until the RCF matures, and further half year for the term loans, we have no bullet maturities before that.

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The rating agencies have reacted positively to the refinancing. Moody's was promptly out with upgrading the ratings from B3 to now B2. Fitch wasn't done with the legwork yesterday when this went to print, but they should report last night. They changed their position from rating watch negative to rating watch positive and in the anticipation of completing the refinancing, they will issue a new rating, which may be a positive development from where they are today. S&P has a preliminary rating outstanding of B, which is in S&P's world is the same as a B2 for Moody's.

This slide summarizes the structure after the refinancing, couple of data points. Our weighted average cash interest rate will increase from -- aggregate further -- our debt increases from 4.8% to 6.5% as a result of this refinancing, actually it'd be lower than that if we apply the 4-year swap or LIBOR rate rather than the 3-month due to the interest curve that as I detailed.

We expect cash interest cost of approximately \$60 million for 2020. On top of that, we will have an amortization of debt issuance cost of \$8 million approximately for the year, which is not only relating to the current refinancing but also relates to the export credit financing that we raised a few years back. This debt structure is very flexible in the sense that we can repay debt without paying any premium to anyone based on our choice which hits well with what our plan to get our net interest-bearing debt significantly down. Showed this slide already last year, Rune has touched upon the main elements of it. We will continue to prioritize profitability before growth. Debt reduction will get priority over growth and we will be measured with respect to incurring CapEx, for example, bringing back cold stacked vessels.

We will monitor our performance based on -- over the coming cycle, based on return on capital employed. And we aim to deliver a return on capital employed meaningfully higher than our cost of capital. And maybe importantly, we aim to get to a capital structure and a debt level that will be sustainable in future downturns and we will use our cash flow to reduce debt primarily until we get to a level where our net debt does not exceed \$500 million to \$600 million. Cash cost, 2019, \$580 million, we expect 2020 to be \$20 million higher, so \$600 million approximately. The two primary drivers for that -- there is obviously lots of variances, but the two most important ones are that we operate more capacity, have higher activity level with two more vessels operating in the current first quarter than what we had in 2019.

And the second element is that there is significant change in fuel mix that as a result of the IMO 2020 regulation, and we indicate that to be approximately \$10 million in the -- this graphics. Tight overall cost control remains a priority. On CapEx, we ended at \$59 million for 2019, this includes \$17 million to the re-introduce Ramform and Vanguard after selling Ramform Sterling. So adjusting for that, 2019 as well was a year where we kept CapEx at very moderate level, which during the downturn has been around \$50 million, some years little bit below that.

The \$59 million for 2019 is quite a bit lower than what we started our initial guidance for the year, which I think was \$85 million for the the full year, so it's quite a bit down. So we managed to introduce Vanguard at a lower CapEx than what we expected. Secondly, we have deferred actually installing the scrubbers on the two vessels that we have planned

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on installing scrubbers on this fall -- or last fall, primarily as a result of fairly tight vessel schedule and not yet finding the optimal time to do so and that has contributed to taking down also our CapEx a bit for 2019 and also contributes to the CapEx then obviously for 2020 where we expect \$80 million, that's the plan, \$25 million for vessel upgrade, yard work and including scrubber installations and the plan now for 2020 is to do three vessels in there. So it's included. There's also \$20 million for streamer investment, and as part -- part of that is starting the initial production of our next-generation GeoStreamer, which Rob will explain more about in the next session.

Beyond 2020 -- '21 -- getting to '21 and further out, we expect that we'll have to restart sustainable reinvestment levels. And since we haven't invested for quite a while in the new streamers, we expect to upgrade approximately one 3D vessel per year from 2021 and onwards, and with those investments, we expect our CapEx level to increase to approximately \$110 million.

I included a slide on IFRS 16, firstly, just to make sure to that I show the amortization table of our current \$197 million of lease liability in the balance sheet. So as you'll see, we would pay \$59 million during 2020, \$45 million of that would be reported as repayment of lease liability and \$14 million as imputed interest cost in the P&L.

Most of our lease liabilities are relating to vessels that can be seen in the pie chart here and most of that again is our liabilities in the Norwegian kroner. It's important to be aware that we touched on the CapEx guidance on the previous slide, the \$80 million. When new leases are entered into, that qualifies for recognition and/or if existing leases are extended, that would be recorded as technically as CapEx and -- new debt or increase of liability. We don't have any plans or decisions today that would -- on the leasing side, that would significantly impact our CapEx guidance, but -- yeah, that will be a part of CapEx our guiding of \$80 million covers all the small stuff, but if anything happens on leasing side, which is not I talk too much about it other day, not the plan, it would be technically reported as CapEx.

MultiClient investment and pre-funding. We have a policy or a target of achieving 80% to 120% pre-funding on our sort portfolio investment level. We have a solid track record of delivering pre-funding inside that interval, as you can see, and more often in the higher end or above the range than anything else. For 2019, we had 105% pre-funding on the \$245 million approximately of total capitalized cash cost. 2020, we will increase a bit the vessel activity or plan to increase the vessel activity relating to MultiClient. We operate more vessels in total, and expect capitalized investments to be between \$250 million and \$275 million. We do not provide -- as last year, do not provide any guidance now on where we expect to be on the pre-funding levels, but so I leave that with just pointing to where our target is, 80% to 120%, which is obviously what we expect to deliver.

We plan to expand our disclosures relating to segment numbers when we get into reporting for 2020 and we have received feedback from not many, but some on certain areas, which that would facilitate easier analysis and we will therefore include -- prepare and include balance sheet and cash flow information on a segment basis, plus some more P&L numbers in our quarterly reports, and this will start with the Q1 report this year.

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Tax, we operate our Titan-class vessels in the tonnage tax regime in Norway. That will benefit with us when we finally get to fully profitable operations. The other vessels are in the ordinary Norwegian tax regime. And our current tax expense has been in the range of \$10 million to \$40 million for the recent years, increasing a bit in '18 and now in '19. This relates primarily to withholding taxes in countries where we do surveys. And to some extent, it relates to profits tax in countries where we do not have carry-forward losses. This may vary a bit depending on the area of operation. Last two years, the causes for the increase have been more revenues and profits in Brazil and then for 2019 also Egypt.

Foreign currency, we are exposed to foreign currency fluctuations since almost all our revenues has seen it -- you can see at the bottom pie chart, all our revenues are in US dollars. And at the top chart, some fairly significant part of our costs are either in Norwegian kroner or British pounds, even though the majority is still dollars. So we -- for us, it's best if the Norwegian kroner is weak and the pound is weak and it has a fairly significant impact, a 10% change in kroner to dollar would correspond to \$12 million to \$15 million on our operating profit for a full year, and a 10% change for pounds has approximately half of that effect, \$5 million to \$7 million for a full year.

We do hedging of some of our currency exposure and material commitments. We are generally cautious though in making hedges, that unbundled natural hedges, and for that reason, typically we are not currency hedging our lease obligations for vessels that are denominated in Norwegian kroner.

Then, summing up more or less on time, very short, we are in the process of completing the refinancing of our 2020 and '21 maturities. Our financial priorities remain profitability before growth, return on capital employed, and debt reduction. We maintain cost and CapEx discipline, and in a gradually improving market, that will enable us to deliver improving free cash flow going forward.

I will stop there, and I think we are ready for 15 minutes of Q&A.

**Bard Stenberg** {BIO 19147078 <GO>}

Okay. We'll start off with a couple here before we open up from the audience.

**Unidentified Participant**

You provided a lot of details on your cost side for 2020 operating costs, depreciation chart, amortization chart, and CapEx et cetera, et cetera. So the biggest uncertainty is on revenues, MultiClient late sales and on contract revenues. And on the late sales side, I realize it's a black box and a difficult number to predict, but it's even more difficult for your investors, your shareholders, your owners than it is for you. And if you look back to 2019, your MultiClient late sales fell about \$100 million compared to '18, more than 30%, which was the main -- the only reason why estimates were sliding big time for PGS last year. Is it possible to provide some indication or view on late sales for 2020?

**Rune Olav Pedersen** {BIO 16158611 <GO>}

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We -- we have realized this is difficult. I mean it's difficult for us to predict it, and as you say, perhaps even more difficult for you. So we have stuck with not providing any guidance on late sales. We, what I can say, internally we don't predict continuous slide or anything like that. We have invested quite heavily in the MultiClient library during the year. And also marginally changed the profile a little bit, a little bit less pre-funding. So we expect late sales to keep up and be good for 2020, but I can't tell you anymore than that.

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## Unidentified Participant

Keep up, is that going up, or -- I think basically the worry from investors I get a lot of questions about that, have you, since you've been distressed for the last many years now. Have you pushed prices down? Have you been too aggressive on selling your library? And now it turns out, everybody has bought your library and the late sales potential is low and that's why late sales fell 30% last year, disappointed every quarter.

## Rune Olav Pedersen {BIO 16158611 <GO>}

No, I don't think so. I mean, late sales in the latter half of the year were quite good. And also, as you know we report everything before the finish of the processing as pre-funding and we had several significant sales in particular towards the end of the year, reported as pre-funding rather than late sales. So we feel that our -- the sales potential in the PGS library is as good as it has ever been and it fluctuates up and down year-by-year. I don't think we have or I'm quite certain that we have not behaved any differently than anyone else when it comes to selling our services over the last years and I think our sales uphold quite good and I agree with you -- as we also said we felt sales last year were not as good as they should have been, but we expect that to improve.

## Unidentified Participant

And on the second, on the contract side, could you tell us how much -- what you booked already? How are the prices compared to last year, and what you have booked so far?

## Rune Olav Pedersen {BIO 16158611 <GO>}

Yeah, we decided not to give a percentage, so be a bit more careful in our guidance of contract, but it is clear that what we have booked is up from the average price of '19 and we expect average contract prices in 2020 to be higher than average contract prices in 2019. But we expect it to be less of a hike than the 40% we experienced last year. So, more moderate than that, but still up.

## Unidentified Participant

Some of your peers are very clear on the guidance, TGS-NOPEC said they have booked 60% of their capacity for the 2020 at flat prices; Shearwater is saying 25% to 30% up; Polarcus is more 10% to 15% up. Where are you in this --

## Rune Olav Pedersen {BIO 16158611 <GO>}

Yeah, well, I just think it's interesting to observe that TGS buys all their services from Shearwater are flat and Shearwater are 20% up, but anyway, having said that, I feel we're going to say we are somewhere between (inaudible) bit of that way, but still quite a bit up.

## Unidentified Participant

Sorry. Could you give a little bit of color as to how the 3D and 4D markets are developing and how that is developing in tandem with each other, so to speak?

## Rune Olav Pedersen {BIO 16158611 <GO>}

Yeah, we will get back to that in quite detail actually under Nathan's presentation, but I can say that the 4D market is continuing to develop quite strongly and is really the growth story in the contract market. But we also see some growth in say call it contact 3D -- contract 3D, but as Nathan will show, this is a lot about 4D.

## Bard Stenberg {BIO 19147078 <GO>}

Okay. I think we'll open up for questions from the audience before we go to the online questions. Mr. Mollerlokken?

## Christopher Mollerlokken {BIO 15853913 <GO>}

Yes, hello, this is Christopher from Carnegie. Just two very short questions. Firstly, have you seen any signs from you or your peers that equipment starts to age and that you have to re-shoot surveys or your peers have to re-shoot surveys as equipment fades? And the second question is just more a bookkeeping. But if you generated MultiClient sales from Egypt, would that be classified as Middle East or Africa in your accounting? Thank you.

## Gottfred Langseth {BIO 5277539 <GO>}

I can take the second I think, I'll take the one -- it is Middle East.

## Rune Olav Pedersen {BIO 16158611 <GO>}

No, we don't know. We certainly haven't been re-shooting surveys because of aging equipment, it is difficult for us to know whether -- to what extent that -- whether or to what extent that impacts our competition, because it will typically be, you should align or you switch out sections and things like that, which will impact their cost and the revenues on the survey perhaps, but it is difficult for us to know. So I don't think I will speculate in that.

I think it's clear that everyone is getting aging equipment and we have been, say, continuously surprised on the positive side of the duration of our NCA [ph] equipment which when we bought it or when we produced it had an original lifetime of 7 years, and we've been able to extend that quite a bit, but it is clear and you see that from the fact that we are starting to produce new streamers that we feel that we are getting to end of life on the older sections. That's clear.

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**Sahar Islam** {BIO 17852692 <GO>}

Good morning. It's Sahar from Goldman Sachs. Can I follow up on the late sales question that was asked earlier and ask if there, obviously you can't give an upside number, but can you give us some color on the key geographies and the key licensing rounds you think will be important this year. And then secondly on the contract pricing, is that pricing up year-on-year again undisclosed amount but is up with more supply coming on from the other players?

**Rune Olav Pedersen** {BIO 16158611 <GO>}

Contract pricing is up year-on-year, to put it that away. So that's -- that's easy to answer. And we will give quite a detailed overview of the areas where we see licensing rounds, where we see key wells and where we see the driver of activity when we come to the next section. So I think I will leave the thunder for Nathan and bet it on where we will see sales coming, but obviously we have a very geographically diverse library. So we are not so dependent on one region or the others, but we will have a detailed review of that later.

**Sahar Islam** {BIO 17852692 <GO>}

Thank you. Just on the contract, will there be a more vessels operated in 2020 through the year than 2019 away from you?

**Gottfred Langseth** {BIO 5277539 <GO>}

Our estimate is more or less the same number of vessels, but that you will see less of winter warm stacking. There is no visible increase in operating capacity -- has that in a way, we do not know what -- how Shearwater and others, what they would do during the year.

**Mick Pickup** {BIO 3266375 <GO>}

Good morning. It's Mick here from Barclays. Just putting my thinking hat on, you talk about digital be more efficient. I'm sure you're going to talk about new streamers faster and more efficient at later date given we're in the world where demand from the oil companies seems to -- or CapEx from oil companies seems to be the best, growing slowly, and you're effectively making the fleet more efficient to bring it on new effective capacity. What drives us from here?

**Rune Olav Pedersen** {BIO 16158611 <GO>}

Sorry, What?

**Mick Pickup** {BIO 3266375 <GO>}

What drives us forward from this point?



**Rune Olav Pedersen** {BIO 16158611 <GO>}

Well, what do you mean -- to put it that way -- (Multiple Speakers)

**Mick Pickup** {BIO 3266375 <GO>}

-- the market isn't growing that fast. You're making it -- yeah, more competitive.

**Rune Olav Pedersen** {BIO 16158611 <GO>}

Well, we think we will take more of the market at a lower price. So in that respect, we're not afraid of that, but obviously, if our efficiency improvements lead us to introduce, let's say, a ninth vessel a year later or two years later, that's great. So we do see a marginal growth and activity growth and we are now, I would say, in a balanced market. So I'm not afraid that we will become too effective and thereby, let's say, ruin the market.

And it was hoped we would have that kind of strides, but I don't expect that, I must say.

I think in terms of what the new streamer will bring, it will bring efficiency, but first of all, it will be cheaper to produce, and it will be cheaper to acquire seismic because it is slimmer and things like that, so you'll use less cost to acquire on the same amount of seismic.

**Anne Gjoen** {BIO 2472141 <GO>}

Anne Gjoen, Handelsbanken. If you look at your backlog and probably also the projects in your leads basket, is it possible to share with us some interesting trends who is more or less interested, is it the majors that is increasing their interest for example?

**Rune Olav Pedersen** {BIO 16158611 <GO>}

Obviously there is a gradual -- clearly a gradual increase in activity from the majors driven by some more than others. I mean, some of them are still very, very focused on exploration and they are the optical 4D is greater and someone others, so that drives activity, but we also see more, I'll call, I'm not sure if we call them second tier, but the people that hasn't really not been acquiring seismic over the last two, three years coming back into the market and now acquiring one, two, three surveys a year and when there is a pool of those that obviously drives activity as well, because it is clear that in the years and the trough years we were to a very large degree dependent on the super majors to drive activity, that is more ways right now.

**Unidentified Participant**

We don't seem to have any questions from -- can you hear me now?

**Rune Olav Pedersen** {BIO 16158611 <GO>}

Yeah, it's better.

## Unidentified Participant

We don't seem to have any questions from the web, but if that's incorrect, just try to resend your question and we will ask them. And if there are some more questions in the audience, please raise your hands. Otherwise, I got one. On the refinancing side after the June failed refinancing and the communication afterwards, and then during most of the second half, I think a lot of investors were left with the impression that you promised to refinance without equity but you ended up doing equity. Is it, do investors have a right impression that you promised not to do it without -- promised to do it without an equity, why did you end up doing it with an equity?

## Rune Olav Pedersen {BIO 16158611 <GO>}

And clearly, the aim first was to do it without equity, but as I think I repeated several times is that if doing it without equity or doing it with, if you're doing it with equity, will be a much better solution for the shareholders, we would obviously do that as one of the toolbox -- tools we have in our toolbox, although the aim was to do it without an equity. In the end, we obviously looked at this and I found that we could do a better refinancing for all interested parties with some equity and therefore we ended up doing that.

## Unidentified Participant

And when you ended up doing it, why didn't you do a bigger one once we have -- once we are doing it and fix the balance sheet once and for all? Did you still have -- are you still way above your own target in net interest-bearing debt?

## Rune Olav Pedersen {BIO 16158611 <GO>}

I mean, you can just almost say the same reflection as the previous question. We still believe that we don't need a very large equity in certain insertion to fix the balance sheet and we should be careful asking our shareholders for money. We believe we can fix our balance sheet from cash flow and therefore we felt that the amount we landed as was the appropriate balance of doing some equity to get a better re-fi and not taking too much money from our shareholders.

## Unidentified Participant

Right, still no questions from the web. And as far as I can see the -- yes, one hand raised all the way in the back. That will be the final question before we then have a coffee break.

Thanks. (inaudible). Just with regards to your partnership with Google, how do you ensure that PGS take home kind of the increased value that Google inherently offers by making this -- your data available online and making your clients be able to play with it and interact with it in new ways? (inaudible) to get into how this is intended to work --

## Rune Olav Pedersen {BIO 16158611 <GO>}

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I mean what obviously, what we do is we pay for having our services on their cloud, but they don't get access to the data, they can't use the data. The data is still ours, is a price of storing it, and then they are also a partner in, call it, technology collaborations, to the extent we do technology that impacts our library and things like that, it will be our property, but it is normal partnership agreement where they provide their cloud services and we take the value of the, let's say, the mining the data and these kind of things, but I'm sure they will make money from this transaction as well and obviously one key part for us is making sure that we get this at attractable prices versus using our own supercomputers. So there will be a gradual transfer obviously from our current computers over to the cloud. If that answers your questions.

### **Bard Stenberg** {BIO 19147078 <GO>}

Right. We then stop for a coffee break and we start up again in -- at 10:30.

We'll now continue on with the business areas. So Nathan Oliver will start, EVP of Sales and Imaging, followed by Berit Osnes, EVP of New Ventures; and then last but not least, our new EVP, Rob Adams, who will give you some details and insights into our operations activities.

So with that, it's my pleasure to give the word to you, Nathan.

### **Nathan Oliver** {BIO 20927516 <GO>}

Thank you very much, Bard. I hope everybody can hear me okay. Good morning, ladies and gentlemen. In this section of the Capital Markets Day presentation, I will talk to the contract acquisition and imaging business segments, before I hand over to my colleague, Berit.

In my presentation today, I'll briefly cover global E&P activity drivers and their continue to -- continued positive momentum in the offshore domain, the impact to driving a buoyant seismic demand outlook, I'll then focus in on the premium 4D reservoir segment and talk to the value of integration to differentiation in this market. And finally, I will touch on one of our digitalization initiatives focused on the imaging segment.

There are a number of E&P activity drivers that act as a major trigger to seismic demand. I'll provide a whistle-stop tour of the world's major E&P arenas and touch on a small number of these, which to your benefit are actually detailed in the pre-read in some, in bullet point form. I'm going to endeavor to use a little bit of technology now, and the laser pointer here.

The first of the activity triggers that I'll talk around is licensing rounds. These trigger seismic activity both pre and post-round from multi-client programs to aid valuation of subsurface potential before the round, to work programs and commitments following award of acreage, 2020 will once again be a very active year. So starting the tour, in the Western Atlantic, we will have in Canada and Eastern Newfoundland, Jeanne d'Arc, a round opening later in the year.

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Moving further South to the US Gulf of Mexico, we'll have the usual lease sales 254 and 255 in March and September respectively. And it's good to see the Gulf of Mexico, that we're starting to see a return to activity there led by recent infrastructure, led exploration drilling success sprinkled with a few new filled wildcats as well.

Moving further South and into Brazil, we'll have licensing rounds 17 and 18 and PSC rounds 7 and 8 in 1920 -- sorry, in 2020 and 2021 respectively. Moving to the Eastern Atlantic and Europe, of course, we've got the usual APA rounds in Norway. We'll will have the 33rd UK licensing round in Q3. And then down the African margin, we'll have licensing rounds from Guinea, to Ghana, Benin, Gabon and Angola as well.

Now, I'll just talk briefly on Angola. I know that -- that Berit will come back to that, but it's interesting to note that with the creation of a new regulator there, the ANPG and the introduction of a transparent bid round process and a forward-looking roadmap of future bid rounds, that activity has started to be re-stimulated there, as seen in the recent Namibe licensing round, where a number of blocks were licensed by supermajors.

Moving on, in the Mediterranean, we will have the Lebanese second licensing round, which will close at the end of April. And then in Asia Pacific, there'll be regular licensing rounds in Malaysia, Indonesia and Australasia.

One of the other major activity drivers to seismic demand is drilling, and as offshore momentum picks up, there'll be a large number of high impact wells to watch in 2020. For reference, I define high impact as a new field wildcat or a play opening well. So again, starting in the Western Atlantic. We have the Harp well currently being drilled in the deepwater block East Canada. Moving further South and around to Guyana, we'll see the Bulletwood well being drilled out in deepwater trying to prove an extension of the already formidable Liza play, which has -- for which the 16th discovery was announced recently this week.

And as we move around into Brazil, Bereimbau a play opening well that will be drilled in the equatorial margins. And then further South in Espirito Santo, there's a number of deepwater or ultra-deepwater pre-salt wells that will be drilled later in the year.

Now, the Eastern Atlantic is not going to miss out. In Norway and the Barents, we will have -- and please apologize for my pronunciation, the Stegastein well will be drilled later this year. Moving around and onto the African margin, we have the Atum well in Guinea-Bissau, which we'll be trying to pursue the successful SNE trend that's been found in Mauritania and Senegal. And then we have the Jove pre-salt well in Gabon. And in South Africa, we have a string of wells from Venus in the Orange Basin through to Luiperd, which is following up on the Brulpadda discovery, and then a true Newfield wildcat in Southern just around the horn [ph].

Mediterranean, an area that has lain dormant really prior to recent large discoveries having been made will be active again this year with drilling in Cyprus and the much-anticipated Byblos well in Lebanon, where the objective there will be to extend the

already proven and prolific Eastern Mediterranean play further East into Syria from Lebanon.

And then in Asia Pacific and Australia, which has long been dormant from a -- an exploration drilling perspective, there'll be three major wells there, Stromlo in the Great Australian point, we have Ironbark on the North West shelf. And finally in Papua New Guinea, we'll have the first deepwater well ever there called Mailu. So as you'll see, there is quite a range of drilling activity there that's supported by the momentum that we've seen in the offshore environment. It's also worth mentioning that not only does drilling success spur exploration seismic activity, but increasingly 4D optimization is brought early into the development cycle of new discoveries before even production commences, and this is a point that I'll come back to.

When it comes to seismic activity, in summary, we anticipate demand in 2020 to be a combination of sustained activity in certain geo-markets and growing activity in other major geo-markets. From the North Atlantic margin seasonal hotspots of Canada and Europe already albeit a mature hydrocarbon basin, a basin, where we continue to see year-on-year activity stimulated with new technology and workflow advances, which I think Berit will talk to later on. All the way down both sides of the margin, East and West Atlantic to the South Atlantic margins, where we have the new seasonal hotspots of Argentina and South Africa presently, where we have not PGS itself, but where there are four seismic vessels active between those two areas.

In the Eastern Mediterranean, we'll see growing demand in part a result of the recent Egypt licensing round, and of course the discoveries that have been made in in the last few years. And in Asia-Pacific, Vietnam will become reactive again, in terms of seismic activity. There'll be a continued and sustained level of activity both exploration and 4D wise in Malaysia. And Australia on the back of the exploration drilling will also be active, again, a combination of exploration, 4D and multi-client.

So how will this play out in terms of the supply-demand equation. While in 2019, industry demand was buoyant reflected in the number of active vessel days increasing year-on-year, and as you can see that in the top left-hand chart, although square kilometers declined somewhat. I've segmented the demand side over the last decade in terms of 4D, contract exploration and multi-client work, again in terms of active vessel days.

The demand growth in the 4D segment in 2019, which requires greater acquisition effort per square kilometer, plus continued build on the multi-client segment squeezed available capacity somewhat for scanning exploration programs, hence, the increase in active days, but the slight offset in the decrease in square kilometers. In 2020, activity is expected to be some 5% to 10% higher based upon a slightly larger supply side and continued increased improvement in utilization. And we currently anticipate that the capacity allocation between the contract and multi-client segments for industry will be broadly similar to 2019 at approximately 45 percentage points and 55 percentage points respectively.

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On the supply side, the bottom left hand graph shows the development of the industry market over time and the consolidation that Rune referred to earlier. Industry capacity was relatively flat in 2019 compared to the prior year. However, we do anticipate a slightly higher supply side in 2020 in the order of 5% to 10% compared to 2019, although, this will be somewhat dependent upon demand.

So what are we seeing in the contract market. I think many of you are familiar with the graph on the left hand side, which shows value versus time for our active tenders and active tenders and risk discounted leads combined. While in short, we're seeing that demand continues to trend upwards in 2020. The order book increased in 2019, with the leading to improve utilization and efficiency with rates close to 40% up on average versus 2018, as already reported by Rune and Gottfred.

We've had good momentum of the -- coming off the back of the best winter season, the industry has seen for several years and with that our own bookings are significantly up. Contract pricing is expected to increase in 2020 aided by industry discipline, consolidation and polarization albeit at a more modest pace to those observed in 2019 to 2018.

I'll now talk about the premium 4D reservoir segment, which is driven by demand and technology, something that I'll come back to. In last year's Capital Markets Day, I talked about PGS' strategic pivot to this fast-growing premium segment. So what did we deliver as a result? In 2019, we continue to be the 4D market leader, as shown in the pie chart to the right, with a market share in excess of 50% based upon activity levels. I'll leave you to guess who the others are in that pie chart.

But with multi-sensor technology on all vessels and large high density streamer spreads, we continue to be the only player with integrated development of acquisition and imaging tools for the 4D and reservoir focused seismic market. I think that previously, the 4D market is driven by demand and technology. On the demand side, the top left hand graph shows the adoption and how that has grown steadily over the last decade, with a five-fold increase of the number of companies that have applied 4D to one or more of their fields. I also talked previously about the change in the timing use of 4D, how major new discoveries are now increasingly considered for 4D optimization early in the development cycle and before production is even commenced. An example of this is the world's largest ever 4D baseline survey that was acquired in 2019 and actually has run into 2020 using one of our own Ramform Titan class vessels deployed for in excess of a year. These surveys being acquired in a recently discovered and prolific hydrocarbon basin, which coincidentally announced the 16th discovery earlier this week. I'll leave you to guess where that may be.

On the technology side, we see strong differentiation in the use of multi-sensor technology, which now dominates as a technology of choice, and PGS' GeoStreamer is regarded as the benchmark acquisition -- system by major oil companies, where our share of the multi-sensor segment sits at approximately 75%. That's important when you consider that 4D survey shot with multi-sensor baselines remain multi-sensor throughout the 4D life cycle of the asset.

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Providing integrated solutions is a critical component to differentiation in the 4D market building on from technology, where GeoStreamer provides enhanced detection and characterization of reservoir changes through to 4D imaging workflows enabling faster delivery of accurate imaging for better well placement to deliver rapid return on investment for our customers. Being able to provide an integrated 4D solution uniquely positions PGS for adoption of reservoir monitoring by customer segment new to 4D. This provides us with a profitable and differentiated growth potential in this segment.

Now I have to just talk briefly about the beautiful seismic on the right hand side there, which I'm hoping will be coming in and out of -- maybe not I would be able to talk about the beautiful seismic. What you're supposed to see here is a monitor survey and the 4D difference. And what would have been shown, should this have been working would be the difference that we see in the producers following the injector at the reservoir, these being the two producers.

What we can say and what I'll have to tell you about is that we can actually see a difference in the reservoir following the injector well at these producers that's related to the different water content in each of these reservoirs. And this is something that you could only see with 4D and be able to optimize for your production. I'd also hasten to add that GeoStreamer given it's resolution as a multi-sensor technology, significantly helps in picking up these differences at the reservoir level.

Finally, I'll talk about digitalization. As you know the wave of digitalization is coming and our industry lives off data. Digitalization represents a tremendous enabler to delivering integrated solutions. And one of the key projects that we have in our portfolio is the transition to high performance computing in the cloud. This will mean -- yield many benefits, including reduced turnaround and increased productivity through the sheer scalability of having access to the Google cloud platform.

Imagine thousands of CPUs that you can call upon on demand as and when required for high intensity imaging workflows. Of course, it will also reduce our CapEx investment and facilitate adoption of the latest and greatest compute technologies, themselves providing infrastructure for artificial intelligence and machine learning applications in the seismic imaging and interpretation space, all of which should enable collaborative workflows with our customers through industry standard platforms, and with that opening the door to new commercial models, something that I think that Berit will touch on next.

In summary, global activity drivers support continued momentum in the offshore E&P segment. We saw strong utilization and pricing improvements in the Contract segment in 2019, and bookings are significantly up year-on-year with pricing expected to increase albeit potentially at more modest level relative to the '18 to '19 move. The 4D reservoir market continues to be a premium segment differentiated strongly by multi-sensor technology and PGS continues to be uniquely positioned as the only integrated player with market leading acquisition and imaging technologies.

And with that I will hand over to Berit.

## Berit Osnes {BIO 19145429 <GO>}

Thank you, Nathan. Let's see -- so we've been through our view of the general market, and Nathan has just given us very good insights into the drivers for exploration. That's a good basis for what I'll be covering in the next 20 minutes, which is our multi-client business.

I'll give you a brief overview of how we have further developed our library in 2019, through our acquisition projects of course, but also I'll give a bit more detail about the value of a large data library and how we keep that up to-date. Then I will talk you through what it means for us to be a fully integrated seismic company and illustrate that with a few examples from both the technology and commercial angle. We will touch upon the value potential that lies in direct access to data in a cloud environment before we go into the numbers and the performance reporting and then a quick summary.

So you've just seen this map already in Nathan's presentation, and he talked you through all the main elements. The yellow areas are where we know that there will be major license rounds in 2020 and into 2021, but it doesn't mean that there won't be seismic projects or license awards outside of these areas. It just gives you a flavor for where the main rounds are located, as these rounds are major drivers for activity and spend, be it our new acquisition programs or existing data. And as you can see we have a library that is well placed for these rounds.

The growth rates for the PGS data library has been stable for many years now. We had some 50,000 square kilometer to 60,000 square kilometers of MC3D coverage every year. This means we now have a coverage of 900,000 square kilometers of 3D data, but we're also adding to our MegaSurvey coverage recently most in West Africa. Here we help ave governments find the data that they own, clean it up and organize it, match and merge it and then produce continuous volumes, which we broker for the governments, often as part of a larger license round support package that we provide.

The stars now show our multi-client acquisition programs in 2019. In the Northern Hemisphere, we continue to grow our key markets, Norway and Canada. We still see a high activity level and an appetite for high quality data in those markets. Canada is s a successful joint venture with TGS, where we expanded both our 2D and 3D library. In Norway, we worked mainly in the Norwegian Sea this year, but we also introduced our new concept GeoStreamer X into the North Sea, and I'll come back to that later on.

Some of you may recall that a year ago, I mentioned, West Africa, a number of times and said it would be a focus area for 2019. Well, as you see from the map words were followed by action. We acquired programs in Namibia, Angola, Ghana, Guinea, and we participated in the TGS led Jeanne project in Senegal and Guinea-Bissau.

Now, these three Atlantic markets, Norway and Canada and West Africa are core to us, and we will continue activities here in 2020 and in the years to come. We also had a fair amount of activity in Asia Pacific in 2019. We completed our Indonesia campaign and it's encouraging to see that North Sumatra area is attracting a lot of interest. We continue to

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grow our position in Sabah, position in Malaysia, and we did a survey in the North West Shelf of Australia. All-in-all, I'm very pleased really with the balance of this portfolio, and I think it's going to deliver a good return in the years to come.

We'll be honest and say though, there was one real disappointment and that's the lack of acquisition in Brazil. Not for the lack of interest or the lack of ideas, but simply because we did not receive our permits in time. But now we have received them and thanks to super efforts -- through our Americas team, we can now soon start working in Brazil. You'll see us do that in 2020. So these were the acquisition-related activities.

Now onto the existing library and what we do to keep that relevant and profitable. The advantage of a large library with continuous data coverage that's massive. This is because geology and its nature is large-scale. You cannot understand and predict a local area, if you don't understand how it fits into a full-scale system. So the client demand for a large scale, high-quality product is definitely there. And we have the underlying data to take into huge reprocessing projects, to create data sets of regional scale that are possible to interpret and analyze in a consistent manner throughout the whole basin.

We have created three main hubs of this kind, the Santos Basin in Brazil, the Flex trend in the medium-to-shallow parts of the US GoM and the GeoStreamer PURE product in Norway. We can take a closer look at the later. This is our GeoStreamer data coverage in mid-Norway. Last year, I described how we built coverage year-on-year, where each separate survey really targets the local targets, but we always keep the bigger picture in mind and make sure that all those pieces fit together.

The first survey in this area was acquired with GeoStreamer in 2011, and we have added data every year since. The two Eastern most surveys are the 2019 add-ons. Our seismic data processing technology is constantly improving. We see the value of going back and re-processing data in addition to just matching and merging the pieces together. And that is what we do with the GeoStreamer PURE. So now we have created a consistent up to-date reprocessed pure data set, shown in purple here on the map, where the 2019 data will be added as they become available. And the beauty about going back and reprocess data to reveal what may be hidden is that sometimes you actually find the unexpected, but it's not just for the fun of it. We create these products because it's good business.

These three hubs, the Santos, the Flex Trend and PURE have been created during the last four years. In that period, we've had revenues from these areas of US\$0.5 billion. At the cost of data processing only, so you understand that this is quite a nice return. A success story like this is possible only because PGS is a fully integrated company, with a technical ability, the data ownership and the commercial drive to create products like this. So here is another example.

GeoStreamer X. I've said at the start that I would comment on the value to PGS of being a fully integrated seismic service provider. This is our most recent example of this on a technical level. Since we have both acquisition and processing experts in-house, we develop solutions that work in both domains and practice. This means that we design acquisition solutions that produce data sets, that can be handled in processing within a

reasonable timeframe and with the required quality output. That may sound just obvious, but it's not always the case, as we have seen recently on some of the attempts to use nodes for exploration purposes, where the turnaround time to deliver final data is just far, far too long.

What we propose with the GeoStreamer X is to use a single Ramform vessel with a high streamer account for data density, multiple sources in a wide source configuration for optimal sampling, better near offset coverage and increased efficiency. We also use variable streamer length to achieve long offsets in the most efficient manner. Then we sail in two or three directions or azimuths [ph] in order to illuminate the subsurface better. If we already have one GeoStreamer data set in the library, then we can use that as input and save one acquisition direction.

This setup as you see here was used in a pilot program in Norway, 500 squares just north of the Johan Sverdrup. The acquisition finished on the 30th of October, and we already have a fast track data volume, which looks very promising. And that's the sort of turnaround that creates real value.

Now to another example, Angola. This example speaks to the value of covering all business models, as well as providing the right technology. Our unique position in Angola is created through our full span of services and models. Angola as a country with large under explored areas, where the multi-client model works well to provide data for screening ahead of license rounds. You see the outlines of our data on top of the different rounds.

As Nathan mentioned, we see a very positive political development in country now with transparent long-term plan for the future rounds. And I have included the timeline on the wheel you see there for the 2019 round. It's a pleasure to see that so far the ANPG has executed in absolute accordance with our plan, and that includes announcement of awards on all three blocks within our existing Namibe Basin survey furthest to the South there.

But it's not only prior to license round that the multi-client model works. A Seismic tender process in Angola can take a long time and hence many operators have chosen to acquire the data they need under the multi-client model. This can shorten their cycle time to the first well by as much as 12 months to 18 months, which creates obvious considerable value for them. And what we see now happening in Angola is what we have seen in other markets before. There is turnover of acreage meaning that data that we acquired a while back is now included in rounds again.

Finally, there is a considerable amount of contract work in Angola on the more mature areas, be it 3D for field development or even exploration, and of course 4D for monitor. Angola is an area, where it's possible to acquire seismic data all year round, and in essence, we've had continuous activity on one or more vessels in Angola since the summer of 2017. And we have already secured more 4D work here for 2020, so the story continues.

Now, let's move into the cloud for a while. I spoke about the value of large data sets for geological mapping, but clearly there is only value of data, if you can access it in a meaningful way. Cloud technology has now reached a maturity and a capacity level, where we can replace the rather clunky data management systems of yesterday with direct access, working access to data in the cloud. So we will move our entire global data library into the cloud in 2020. And that opens up a whole new world of opportunities especially if you can access and combine different data types from the same user platform.

In PGS, we have decided to go for a good mix of our own developments and third-party solutions. We are platform agnostic. We simply want our data to be available to as many users as possible. We added interactive software and well data to our portfolio through the purchase of RSI last summer. And we're open to work with any third-party, who can bring further value to our library through services that combine or explore data in innovative ways.

But the core of it all is our data. Our data represents a huge value and therefore, we work very actively to make sure that new business models be those with our customers or potential partners deliver that acquired value back to PGS, as a comment to the previous discussion.

Back to earth again. In PGS, we believe in diversity. We believe diversity sparks creativity and prevents stagnation. We believe this to be true for our people, but it goes for our multi-client investments, too. The historical revenue generation per region that you see here speaks to that model. Europe is a stable basis, while the other regions vary significantly from quarter-to-quarter. But when they do deliver, they often outperform Europe. So the challenge is of course how to balance this? And how to get the timing of activities, right?

One year ago, I stood in front of this audience and said we will not only continue to invest in West Africa, we will actually ramp up because we believe there is great potential, and I pointed to the 2012 levels, as the benchmark and you see Africa being the light blue color there on the bars. So we sent two vessels there in Q1 and look at the success, but the point is you can't harvest until the crop is ready, and we invest also for the future.

So when we now show a solid contribution from the Africa region in Q4, it contains exactly the mix of revenues that I like to see, some of it comes from library sales on investments that go years back in time, some of it comes from the Q1 investments and some is pre-funding for Q4 activities. Now I want to point you to the purple color on these graphs. When we now return to Brazil, I expect to see a similar effect, as we've just seen in Africa. The purple part of the graphs will expand, but I cannot say precisely when it will happen. I am confident though that this will pay off generously over time.

So from the historical profiles now on to the details for 2019, we can stay on the regional distribution to your right there. We see quite a balanced picture for the year. The Africa Mediterranean region has expanded and reduced the dominance of Europe that we saw last year. And since we had vessel activity in Asia Pacific, but none of that in Latin America,

we see that those two areas have leveled out in 2019. While North America position is similar to last year.

On the customer side to your left, you see we still serve a very big client base about 100 companies. That's nice to see actually meaning that there are some new companies popping up, as others merge, and the newcomers do spend money on seismic data. There is a stable group of companies, who do the real heavy lifting, though, and those are the seven companies in these blue and gray colors on the chart.

Half of our revenues come from this group, but you see within the group, it's an even distribution, which means that we don't rely on any one in particular to deliver business. So all-in-all, I believe this is a very solid client base and a good balance between the small, medium and the large customers.

Onto the performance numbers now and they have already been discussed a little bit. These graphs should be familiar to you. The upper part shows that our multi-client share in 2019 was 20%. We do face a new makeup of the multi-client community compared to previous years. I mean, it will be interesting to see how this develops in 2020 and in the years forward.

The lower part shows our performance pre-funding levels as Gottfred mentioned 2019 was 105%, which I think is very good considering the slow start of the year. PGS went into 2019 with the plan to keep seven vessels going through this winter season, but here we are with eight vessels going and a solid backlog and that's quite an uptick.

Late sales, as we have already touched on ended on 273, which is on a steady growth path as you see from 2015 levels, but let's face it, we had hoped for more, and we'll work hard to improve in 2020. This slight shortfall in the late sales, of course also impacts our sales to investment ratio for the year. It ended at 2.2 versus a target of 2.5. Now, I would say that any business that delivers a ratio of 2.2 is a good business, but we have high ambitions, and we keep 2.5 as our target level.

So let's wrap up. In summary, we delivered strong multi-client revenues in 2019 and a solid group of projects for the future growth. We see direct benefits of being the only company to deliver the full suite of seismic services, and we see an exciting opportunity to reshape the way that the industry is using seismic data by direct access in a cloud environment. And finally, we'll keep our 2020 targets for multi-client investment and return at approximately the same levels as in 2019. Thank you.

With that, Rob will do the operations.

**Rob Adams** {BIO 3059652 <GO>}

Thanks, Berit, and good morning, everybody. Last, but hopefully not least, but possibly quickest, I'll give a short update on our operational performance through 2019, our ambitions for the coming years and also take a look at our R&D focus on new technology solutions for the future. Here is a quick overview. I'll be going through our safety

performance, our ESG strategy with a focus really as Rune mentioned on the E, primarily at this point, also looking at the IMO regulation change and our response to that. I'll then give an update on the fleet before turning to look at some of our R&D efforts including our streamer strategy over the coming years before I wrap up.

So first of all, I'd like to take a look at our safety record over the last few years. Obviously, despite recent market conditions, we have managed to maintain a core focus on safety, and the safety culture, both in the vessels and in the office remained strong. At PGS, we do continue to stop jobs rather than perform jobs that we believe to be unsafe. This is reflected as you can see on the slides in an industry-leading performance on the HSE, TRCF statistic showing an improvement for 2019 over 2018.

Of course, it becomes exponentially more difficult to eat into the area under this curve and continue to reduce this performance -- improve the performance. But that certainly is our ambition to continue to take these statistics down to levels below what we've seen even historically.

PGS and the climate challenge. This is an area that rightly has a great deal of focus at the moment. There's a lot of companies making very ambitious statements about their reduction targets, and it's great to see this sort of renewed intent in this arena. It's something that perhaps we haven't spoken too much about. It's been there in our reports, but we haven't stood up and perhaps said a great deal about it in the past. But silence doesn't equal inaction. And as you can see from the chart up here, we have steadily and quietly over the last decade, reduced our carbon emissions per seismic line by 30%.

We can already see ways to reduce that down towards a 50% mark over the next decade, and we intend to do that through efficiency improvements, utilization benefits and reducing, in particular, drag in the ocean. Now, some of this is enabled by digitalization, some of it's enabled by the new streamer technology and I'll come back to this a little bit later on in the presentation.

I don't think I could stand here and talk about ESG and the strategy in that regard, without talking about PGS' relationship to the oceans. We've all been to national parks, and I think of it like this. When you go into a national park, you see that sign, very often these days, which says take only pictures, leave only footprints. Well, that is our core business taking pictures of the subsurface, and we aim to leave no footprint through careful planning and collaboration with local fisheries and other stakeholders.

Indeed, we actually do our best to clean up the survey areas, where we operate. We've collected over the last five years around 200 tons of debris, mostly plastics out of the oceans and returned that to a proper disposal chain onshore. This often includes rescuing marine life from that debris and returning it safely to the sea.

As you can see from these numbers, we are acutely aware of the amount of debris in the oceans, and we take our responsibility there very seriously, even going one step further and creating an industrial scale plastic collection system that subject to funding, we hope to put into the oceans in 2020. Additionally, we are supporting the UN Sustainable

Development Goal 14A by providing the bathymetry data we collect in the performance of our operations to the Seabed 2030 Project, with a goal of mapping, the entire ocean sea floor by 2030.

Moving now onto the IMO regulation change. Of course, we had announced the plan last year to equip some of our Titan-class vessels with scrubber systems during 2018 -- due to actually a very strong seismic market coming into the fourth quarter, when we had intended to do this, we postponed these plans and it's now our intention to perform upgrades to scrubber systems on three of our four Titan class vessels in 2020.

This will allow us to continue to use HFO on those vessels and this should give a very significant cost advantage on the vessels and the cost impact of the \$4 million investment we expect to be repaid in less than two years. We anticipate then doing the final Titan class vessel upgrade in 2021.

I show up here on the screen, the current active PGS fleet of eight vessels, including six Ramform vessels. We now operate a flexible fleet model in PGS and this is working well. It's allowed us to balance our active fleet of eight vessels to meet market conditions, operating six vessels through the winter in 2018-2019 and as Rune and others have remarked, an ambition was there for seven vessels during the current winter, when we've actually managed effectively to deploy all eight and exceed that targets.

We have all of these eight vessels naturally equipped to operate at all times, but we have flexibility so we can reduce cost down to seven or even six vessels, if that's required. Conversely on the upside, we do also have three other stacked Ramform vessels that we can bring back to market, if conditions dictate.

We sold in 2019, the Ramform Sterling to JOGMEC creating a new company Ocean Geo-Frontier. The Ramform Sterling is now being run by Ocean Geo-Frontier as TANSAs, Ocean Geo-Frontier itself comprises of NYK Hitachi and PGS. It's based in Tokyo and is operating initially on a 10-year project. PGS owns 34% of that collaboration. PGS also received revenues from OGF due to supply of personnel and equipment during the project period.

Our vessel performance as you can see here has remained very stable over the last few years, around 95% uptime with the technical and maritime downtime typically low below around 3%. Our vessels have continued to perform extremely well during the recent year. And that's despite deploying them in some extremely challenging environments. Nathan and Berit have pointed to some of the areas where we've used our vessels and particularly the challenges faced in Asia Pacific and West Africa do place high demands on our fleet and our equipment, but we have responded very well to those challenges.

We've continued to utilize our assets as efficiently as possible by employing and operating successfully large stream accounts, even in these harsh environments. I just mentioned large stream accounts, the number of streamers a vessel tows can be used either to increase efficiency or data quality or both. The PGS fleet has the highest industry active stream accounts at 14. And we can add to this efficiency edge in future by using

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multiple sources and developing non-standard configurations to get the most out of our assets. This is a key focus area for our R&D efforts.

Our fleet is still young, even with the sale of Ramform Sterling and the reintroduction of the much older Vanguard, we still have a low average fleet age of eight years and this positions us well for the future. I highlighted just now the average stream accounts of 14 and we do use this. As I mentioned, the high stream account translates to an efficient project and we acquired 25% of our projects in 2019 with 16 streamers or more. Often even when using slightly lower stream accounts 14 etcetera, we are towing extremely wide and taking full advantage of the platform that we're deploying these streamers from. In particular, multi-client surveys have allowed us to design surveys ourselves and use the capacity and our assets to their best advantage to do efficient and high quality surveys. We expect this trend to continue into 2020.

Quick summary on the fleet and we have a comprehensive set of strengths here. We have modern, safe vessels, providing crews with a great working environment. The high towing capacity means that one vessel can do many different types of jobs from high stream account 4D jobs to wide-tow exploration surveys. High redundancy and propulsion give high safety margin for robust safe and reliable projects. And as we continue to invest in digitalization, we expect further cost savings to come from things such as the move from calendar-based maintenance to predictive maintenance.

I'll move now to talk a little bit about our R&D efforts. I've been talking a lot about efficiency and focusing really so far on the streamer side, but there is more to this story. PGS also has the industry leading source steering technology, which is currently seen primarily is a benefit in the 4D segment and this is certainly a factor when looking as Nathan highlighted at our particular strength in the 4D market.

We've started to focus our R&D efforts on how we can do more with this technology and continue to get more out of our assets with further efficiency improvements. The improved towing solutions that we have developed will give the ability to tow our sources wider and achieve a 15% efficiency operation on selective projects such as GeoStreamer X as highlighted by Berit in 2020 with a goal of 20% by 2021. This will save time cost and allow us to reduce our environmental footprint at the same time, by acquiring more the of the less.

Of course, part of our R&D efforts have naturally turned to digitalization. Why are we doing this? Well, of course, we have a vast amount of data that we've collected over the years on our modern vessels on all aspects of our vessel operations. And recent advances in technology now mean that we believe we can harness this data to drive efficiency improvements in a number of areas.

We have chosen to work with an acknowledged industry leader in Norway on this topic, Cognite and have initiated two ongoing collaboration projects with them, focused on energy efficiency and smart maintenance. We anticipate that the outcome of these projects will be to optimize operating costs. As an example, roughly 20% of our direct

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vessel costs coming from expenditure on fuel in lube. On vessel performance, vessel speeds mentioned up here is a key driver for the commercial success of a survey.

Naturally any improvements here could have significant impact on the bottom line. I've also mentioned just now our drive to move from calendar base to predictive maintenance and you can see, this is another focus of our collaboration with Cognite that we believe will help us to drive this transition. Moving back now to streamers, the PGS a fleet is entirely equipped with GeoStreamer, a multi-sensor technology with all the advantages that Nathan, Berit and Rune have discussed.

This has been manufactured between 2008 and 2018. Whilst it was originally designed for a seven-year life cycle, the design allows us to refurbish them when required and significantly extend their operational life. We've been able to continue to use the earliest GeoStreamers through 10 years now without seeing any significant impact on our operations. And this year we are now starting production of the next generation GeoStreamer. This has been designed to have a 30% lower unit cost and will also reduce drag and have a longer operational life.

From the technical point of view, the drag is very important. I talked just now about fuel consumption, drag is of course a significant factor in the amounts of fuel we need to use our streamers. It also allows us to tow longer streamers when required, larger offsets, potentially even wider spreads in markets where this is required, both of which will allow us to use our assets more efficiently and drive our acquisition cost efficiency.

So in summary, our strong safety culture continues to yield positive results. Our active fleet is the most productive in the industry and we are continuing our R&D focus including digitalization to develop further technologies to make our acquisition technology efficiency even better and our data quality even better. Current GeoStreamers continue to work well and will enable low streamer CapEx continue through 2020 as we start to roll out the new generation of streamers in 2021. These will reduce cost and improve performance.

And with that, I'm finished and I'll hand back to Rune to wrap everything up. Thank you.

**Rune Olav Pedersen** {BIO 16158611 <GO>}

Thank you, Rob. I will provide some concluding remarks. I will not speak to these slides in full again. But just like to highlight that 2019 was the year when we saw a considerable increase in pricing and brought contract segment back into positive territory. We did that even though we started the year with very low backlog. This year we're starting with a very strong backlog so better starting point and the same applies to our competitors. So this is across industry. Solid free cash flow generation in 2019, which we will expect to continue and improve in 2020 and obviously we are very happy to be -- have been able to refinance our maturities, so that we can now focus on operations and markets going forward. We also believe that the current market -- let's say, set up structure is favorable for the seismic market and necessary for this market to continue to gradually improve profitability.



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There are three players owning vessels and three players only doing multi-client, and us doing both, which we think is a solid and good market structure for what is a seismic market with significantly lower activity that we saw five to six years ago, but still able to generate profitable projects in both contract and multi-client. And as you have heard, we are happy with our position as being the integrated service -- with our integrated service offering, that has delivered value in 2019 as the market continued to strengthen. We believe it will continue to deliver more value. So, we've just kind of started to see the benefit of this, I would say.

And you heard about some of our projects in digitalization, we think this is quite important. We are a company providing data and there is a technical evolution going on which is about data and we of course need to take the most out of this evolution. And we think we are off to a very good start.

So in summary, we have had another year with increasing cash flows. We have improved profitability, better return on capital employed. And as I said, significant contract price improvement, solid MultiClient sales. If you look at '17, '18 and '19, the total MultiClient business has generated more than \$0.5 billion of revenues. Although, we felt that the first half of 2019 was slower than what we would have liked to have seen. I think it's fair to say. We expect 2020 to be a better year for the industry and for PGS than 2019. And as I said, we expect to generate more value from our integrated solution.

So with that, I think I conclude the presentations on the Capital Markets Day and then it is time for a Q&A session, I believe. Thank you.

## Questions And Answers

### Q - Unidentified Participant

Yeah as we just start, I have a question to Berit. I presume, one of the key KPIs for you is how many dollars do you generate in revenues relative to how much you invest in MultiClient data. And you keep focusing on investments in terms of cash investments. So, all your charts shows revenues to investments and the pre-funding relative cash investments. But last year, you invested about \$250 million in cash in the library, but you also capitalized \$100 million in interest rates, which is cash, but also depreciation.

So in fact your total MultiClient investments in terms on the balance sheet was \$350 million instead of \$250 million. So when you say your revenue to investment ratio last year, it was 2.2, if you include all the costs, all the capitalized costs, \$350 million instead of \$250 million, the sales investment ratio was 1.5, and you say it's slightly disappointing, I would say that's terrible, all the other players are way above 2 on the comparable number. So I just wonder on your KPI -- do you -- are you being judged upon or evaluated upon revenues relative to cash investments or to total investments?

### A - Berit Osnes {BIO 19145429 <GO>}

I mean this -- is it all?

## Q - Unidentified Participant

Yeah.

## A - Berit Osnes {BIO 19145429 <GO>}

There we go. This is nothing new from 2019 versus what we have presented over the years. So, I think the most important factor to look at here is how we are doing compared to ourselves over these years. And the total amount of revenues that you see are generated from our business. There's different ways of calculating what is real cost on our side and what is real cost on our competitor side because ultimately, they are carrying some of that costs from the vessels owners. So I think we've had this discussion every year that we are not comparing apples-to-apples, but what you see is that it's considerable stable business.

## A - Rune Olav Pedersen {BIO 16158611 <GO>}

I think to add to that obviously if you look at this as a three-year trend, we are at par or above most of the others also on the full cost model, which we have shown several time. Yes, we performed less than what we'd hope for this year, and therefore those ratios are down and obviously we measure both to answer your question directly.

## Q - Unidentified Participant

And just to (inaudible) very quickly in 2018, that ratio was 1.75, including all capitalized costs and also I think that question is more important now that your CapEx is going up because CapEx is cash flow and your CapEx as long as it's been capitalized, we need to take into account the full cost. And is it getting even more important way to now that CapEx is increasing sharply in percentage terms.

## A - Nathan Oliver {BIO 20927516 <GO>}

As I said, we measure both. And I agree with you and I think as call it contract prices are including, the full cost becomes more of a relevant measure than what it has when the vessel terms were -- when the contract prices were on call it OpEx levels where cash I think was a better reflection actually when you -- if you want to compare across lines. So therefore, we have this is a bit before I believe that cash was much better to invest, if you want to compare in the previous years. I start to agree that as we move into a better contract market and the MultiClient players will have to pay higher price, the full cost model is the more appropriate also if you want to pair across, but we measure both.

## Q - Unidentified Participant

So therefore, my question for Berit -- is she -- her performance is and the bonus and performance shares as we also have an incentive for, is that based on full cost or cash cost?

## A - Rune Olav Pedersen {BIO 16158611 <GO>}

Both.

## Q - Unidentified Participant

Okay. good.

## A - Nathan Oliver {BIO 20927516 <GO>}

Can I add? We agree, in a way we overtime what matters for us is return on capital employed. And there are -- it's inherently challenging to compare -- financial performance between MultiClient companies because there are other differences as well. If you look at typically our MultiClient revenues, they'll be generated earlier than most of our competitors. And there is a timing factor there as well, but we look at all these numbers, we know what sales to cash investment ratio needs to be to satisfy our requirements for return on capital employed and so on.

## Q - Unidentified Participant

Just following up a little bit on Juan's question the target of 2.5 times sales to investment ratio somewhat in the high range of what it has been in recent historic chart you showed us, could you just remind us what kind of levers and buttons you can push to achieve and to maintain that target?

## A - Rune Olav Pedersen {BIO 16158611 <GO>}

It's always about picking the right project and that is absolutely clear. And we believe that activity growth in general, we should have access to more profitable projects when the activity level is more scarce to put it that way. So it's obviously about balancing contract versus MultiClient. It's about balancing cash flow upfront versus cash flow over time, late sale potential and about getting access to the right area. So these kind of or the dials we are looking at in this respect.

And the 2.5 is the target over time and it is an aggressive target as we say, if you look backwards, we've been over to one or two years or something like that. And then at 2.3 and 2.4 in all the years.

## Q - Unidentified Participant

Okay, thank you. Just one more from me before I hand over to the audience here in the auditorium. Just on Google Cloud, machine learning, artificial intelligence, etcetera, are you able to interpret or unlock new value from old seismic data you have dig deep in your own service?

## A - Rune Olav Pedersen {BIO 16158611 <GO>}

You'll reply than Berit?

## A - Berit Osnes {BIO 19145429 <GO>}

Definitely, old data carries a lot of value. You saw the examples that I showed from Santos, Flex Trend and PURE and actually the Flex Trend data, that's really old data, it's 10, 15, 20 years old. And if you re-process that, it's still carries a lot of value, because you can apply new methodologies on re-processing. So there is value locked in within our library and

also within the public domain I should say, but there is value in that, but there is even greater value of course in more modern data, but the huge value lies in combining data types seismic with other G&G data types and there is an enormous potential all in all.

**A - Rune Olav Pedersen** {BIO 16158611 <GO>}

I don't know where your question -- it's --not possible to call it reprocess very old data to get the same results as new data, because of the acquisition configuration. You can improve them as eventually and you can use it together with new data, but it cannot replace new data.

**A - Unidentified Speaker**

Certainly. Thank you.

**Operator**

I think we'll open up for questions from the auditorium. Anyone? Christopher?

**Q - Christopher Mollerlokken** {BIO 15853913 <GO>}

Yeah, Christopher from Carnegie. Just two points. First actually I have request. First, thank you for using your time and sharing all this information with us today. Unfortunately, you have a spoiled me because I noticed that you didn't provide the estimated size of the global square kilometers acquired this time. So maybe next year, if you can include that slide again, it would be great. We actually use it, and we --

**A - Rune Olav Pedersen** {BIO 16158611 <GO>}

Just before you continue I can comment. The reason we've taken it out, is that when the amount of 4D increases, this square kilometer estimation starts to become a little bit irrelevant as a measurement for activity. That's the reason, but anyway. Thank you.

**Q - Christopher Mollerlokken** {BIO 15853913 <GO>}

I know, but just like the number. And the second question or the only question was when you're moving your data now to the cloud, you're basically leasing computing capacity from Google, bit tedious question, but would you account this as OpEx or leasing costs and what's the annual amount spent on this be? Thank you.

**A - Nathan Oliver** {BIO 20927516 <GO>}

It will be treated as OpEx and we will in a way pay for the capacity based on the commercial model we have with with the with Google and you do that for high performance compute, will be based on usage so it would be variable and based on the way the projects and activities we do, I will not quote you a number here on that OpEx amount but we are convinced that over time what we spend on the OpEx with Google for high performance compute will be attractive compared to the corresponding CapEx we would have had, had we continued solely based on our own compute centers.

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**A - Rune Olav Pedersen** {BIO 16158611 <GO>}

I think it is important also to understand that this is a gradual transformation, obviously. We have a lot of computers already bought and working and we will obviously continue to use these computers in combination with the cloud. So this is a kind of a multi-year transition to the cloud. So the impact in the beginning will be less and then depending on when we are done with our own computers if we ever get there, then it will be larger. Thank you.

**Q - Sahar Islam** {BIO 17852692 <GO>}

Sahar Islam from Goldman Sachs. You talked about Rob the potential of unstacking some of the cold stacked vessels. Can you talk about what you would need to see that, to see in the market before that happens, and the cost associated with that. Because I think the \$100 million to \$110 million CapEx number we had before is without any cold stacked vessels, is that correct?

**A - Rob Adams** {BIO 3059652 <GO>}

Yeah, I think if we go back to the overall financial strategy, we're looking to get profitability before growth. So we need to be sure that bringing any vessels back into the marketplace would deliver an effective return, which is to say it should certainly be seen on the back of further improvement in pricing and the fact that bringing capacity into the market would not have a negative effect on that. When it comes to the cost involved that depends a little bit depending exactly when we bring them out and so forth is a number of things to go into that calculation.

**A - Rune Olav Pedersen** {BIO 16158611 <GO>}

But I guess we could say it's as an approximate number of call \$50 million for the first vessel and then will increase a little bit as Rob indicated. If you kind of go further down on the (inaudible) where vessel has been further out and you need investments little bit in the vessels, as well as than the increases a little bit. And we have no plans to introduce any cold stacked vessels in 2020, just to be clear.

**Q - Sahar Islam** {BIO 17852692 <GO>}

Thank you. And then a slightly broader question. We've talked a lot about AI and I mean somebody who doesn't have a technology background, my understanding was it's not at the stage where you can replace people in processing with AI yet. Is that changed and if it does change, does that mean that the cost of imaging comes down significantly?

**A - Berit Osnes** {BIO 19145429 <GO>}

No, I think, it's way too early. If that ever happens that to say that we can replace people with machines in imaging. What we are targeting first and foremost here is a cost on buying computers versus using it in cloud and also the ability to scale up and down and thereby deliver -- delivering our services much quicker and then deriving value out of that because time really is money when it comes to delivering final images to our clients.

**Q - Sahar Islam** {BIO 17852692 <GO>}

Thank you.

## Q - Unidentified Participant

Hi, you talked about a changed landscape competitively out there. Obviously there's some now dedicated MultiClient companies. Have you seen any change in their behavior? They're focusing a lot more on G&G and the connection which Berit mentioned before. So how's that behavior change and what can you do on the G&G side to enhance your offering?

## A - Rune Olav Pedersen {BIO 16158611 <GO>}

I don't think we have seen a lot of change what we see is that WesternGeco continues to invest quite heavily. I mean there was at least the question mark in communication a year back how much they would invest. But they seem to be an active player in the market. And so those CGG, so I don't think I could say we have seen a change in behavior from any of them. And the second question, what can we do in J&J. I think I will hand over to Berit or Nathan?

## A - Berit Osnes {BIO 19145429 <GO>}

I go on about this combination of data, because that is really what exploration is all about, but we also as PGS need to focus on what we do best. And we are a geophysical company and a lot of when we talk about integration, we talk about the integration within kind of the geophysical domain or the seismic domain. We will touch into geology and other products. But really from the geophysical side of it and how can other products improve the performance of our products, in geophysical side. So we're not going to move into full geological services. We think that's a crowded space. We will stay with geophysics as our core activity and focus, but we will look into how those other data types and services can improve the value of our data if that is a response.

## Q - Unidentified Participant

Thank you.

## A - Unidentified Speaker

Anyone else from the audience? Okay. We'll do some questions that we have received online mostly will start from Lillian Stark from Morgan Stanley. Are you still expecting the remaining payment of the Ramform Sterling to come in April 2020?

## A - Rune Olav Pedersen {BIO 16158611 <GO>}

Yes.

## A - Unidentified Speaker

Very well. Second question from Lillian. You mentioned demand for high scale high quality products, to what extent do you think the digital initiatives mentioned in today's presentation may eventually lead to a reduction in overall cost structures, as they become

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industry standards and consequently reduce the differentiation of these high-quality projects?

**A - Rune Olav Pedersen** {BIO 16158611 <GO>}

I don't really think it will reduce the demand for the high quality projects, because you need high-quality data to do the machine learning and artificial intelligence. And the better the data, the more the digits and more you can do with it. So in a way, little bit to our discussion just recently, where old data with new artificial intelligence cannot replace new data, just because you lack the digits from the subsurface. So if anything I think more digitalization will, let's say, drive the interest for data and data with a rich richness new data to a larger extent and to a lesser extent because if we are successful along this journey, the data will have more value, right. So you could derive more out of it and then you reduce your drilling cost or your other costs. This is a data revolution, and the increases the value of data -- rather than on the opposite.

**A - Rob Adams** {BIO 3059652 <GO>}

And following I guess a little bit aligned the same along the same lines from (inaudible) our clients are willing to pay more for quick access to data, increased interactivity and possibility to work with more data sources in Google Cloud or is library price stable and cloud services is simply something all clients will demand at some point.

**A - Rune Olav Pedersen** {BIO 16158611 <GO>}

I think as a, it's a good question. I think it's clear that clients are willing to pay for faster data in particular -- in areas or situation where that is very important. And then there is clear then we see the trend yes they are willing in other where they in are less in a hurry, they may not be. And how and if we are willing to take out I say more value, more revenues for us in new business model is too early to say, but clearly something we need to focus on and make sure that value doesn't end up solely with our clients. It should be something we share

**A - Unidentified Speaker**

And also follow up on that, I guess will Google, be able to obtain a large, let's say, 10%, 20%, 30% share of those late sales?

**A - Rune Olav Pedersen** {BIO 16158611 <GO>}

No. That's not the how the world works.

**A - Unidentified Speaker**

All right. Thank you very much. We'll move on to the last set of questions I think before we head out for lunch. Lastly from Morten Nystrom at Arctic. Three questions, we can just do all of them successively. Number one, why have you decided not to give any comments on day rate increase in 2020, given that you have a contract backlog backlog now at \$234 million versus \$104 million last year.

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**A - Rune Olav Pedersen** {BIO 16158611 <GO>}

I can answer that right way. It is a small industry with very few players and we are going to be careful giving a very specific indications of where prices are moving, because there are obviously other people listening to. Last year, we broke that because the jump was so high. So, we kind of felt unnatural to keep that to yourself so important. This year we see as I have tried to communicate more and more a gradual increase in rates and we would prefer to stick with that kind of communication rather than giving percentage terms or more specific terms.

**A - Unidentified Speaker**

Very well. And number two, what should we expect for vessel utilization in the first quarter and working capital movements?

**A - Rune Olav Pedersen** {BIO 16158611 <GO>}

(inaudible) go ahead.

**A - Nathan Oliver** {BIO 20927516 <GO>}

I can say that you should expect that the increase in working capital we had in Q4 should reverse to a large extent to put it that way. Working capital is always dependent on the revenues, we again generate in Q1, which we don't comment and there may well be -- some late revenues also in Q1. But in a way the working capital we built in Q4 should be collected primarily in Q1. Vessel utilization should -- you should expect it to be reasonably high. I think that's the right answer.

**A - Unidentified Speaker**

Yes. All right. And last question from Morten. Number three, you're pointing towards MultiClient projects in 2020 in Brazil and Angola. Does this imply that PGS expects a higher pre-funding level in 2020 versus '19?

**A - Rune Olav Pedersen** {BIO 16158611 <GO>}

Our guidance pre-funding is \$80 million to \$120 million, and we reached \$105 million this year. So we're not going to be saying whether it is above or below \$105 million for next year.

**A - Unidentified Speaker**

Okay, good. We are four, five minutes over time and I think everyone is keen for some lunch. Are there any last minute questions from the audience before we conclude? Okay. With that being said, that concludes this year's PGS Capital Markets Day. John and myself would like to thank on behalf of also PGS and the Norwegian Society of Financial Analysts, all participants and especially the presenters today. There is lunch waiting for you outside. So thank you all and have a good day.

**A - Rune Olav Pedersen** {BIO 16158611 <GO>}

Thank you.

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**A - Rob Adams** {BIO 3059652 <GO>}

Thank you.

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