Y 2020 Earnings Call

Company Participants

- Bard Stenberg, Senior Vice President, Investor Relations and Communications
- Gottfred Langseth, Executive Vice President and Chief Financial Officer
- Rune Olav Pedersen, President and Chief Executive Officer

Presentation

Bard Stenberg {BIO 19147078 <GO>}

Good morning, and welcome to this presentation of PGS Fourth Quarter 2020 Results and our 2021 Market Perspectives. My name is Bard Stenberg, Vice President, Investor Relations and Communications in PGS. This presentation was originally planned to be a webcast, but has been transformed into an audiocast unfortunately.

With us from management today are President and CEO, Rune Olav Pedersen; and CFO, Gottfred Langseth. Before we start, I would like to give some practical information. Participants on this audiocast can submit their questions via the audiocast platform, and we will respond to them after management's concluding remarks.

I would also like to draw your attention to the cautionary statements and the risk factors disclosed in our 2019 Annual Report and the Q4 2020 Earnings Release. Agenda for this presentation is that Gottfred will start by presenting Q4 and preliminary full-year 2020 results. Rune will continue with our review of 2020 and give you our perspectives for 2021. Then Gottfred will round off by giving our 2021 financials.

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

Gottfred Langseth {BIO 5277539 <GO>}

Thank you, Bard. I will, on the following slides, focus on the fourth quarter. The seismic market remained challenging in the fourth quarter. There was a limited new program activity globally, which led to weak vessel utilization. Client spend was muted due to the significant reduction of 2020 budgets implemented by clients early in the year.

Despite this, we achieved a 70% sequential revenue increase from a very low third quarter. The increase is driven by MultiClient revenues. We saw a usual year-end increase but, again, from very low levels in earlier quarters. We also benefited in the fourth quarter from sales related to license round activity in West Africa and Brazil. On costs, we had low cash cost in the fourth quarter. We revert to that $80.5 million of quarterly cash cost.

We saw an order book increase in the fourth quarter, which points towards improved vessel utilization into 2021. Lastly, on this slide, our agreements with lenders are now moving towards completion following the court sanctioning of our scheme of arrangement two days ago on January 2nd -- February 2nd.

A high-level look at the financial summary shows a sequential improvement of segment revenues, EBITDA and EBIT. At the bottom right, the cash flow from operation does not show the same improvement. However, this is primarily due to our revenue profile, collection period and intra-quarter distribution. The cash flow in fourth quarter is primarily driven by the revenues we generated in the third quarter, which, as you can see from the illustrations, were quite low.

On key financial numbers and figures, the Q4 segment revenues and other income was $172.8 million, a 40% decrease from Q4 '19. $172.8 million of revenues is $15 million approximately higher than the segment revenues we had in our pre-announcement in January. The reason for this is that we have recorded $15.5 million of estimated government grants as other income in Q4. Segment EBITDA was $129.6 million, a 33% reduction from Q4 '19. We had a positive segment EBIT of $20.5 million.

And lastly, revenues on an as-reported basis, which I hope you know is depending on exactly when the surveys are completed and delivered under IFRS, was higher than the segment revenues in the fourth quarter, but they were lower for the full year.

Moving on to some specific matters impacting the Q4 financials. We recorded $30 million impairment on seismic vessels in the quarter. This additional impairment was driven by an increase of the estimated weighted average cost of capital or WACC, used for impairment calculations. And it was increased to 12% from previously approximately 11%, which has an impact on the valuation of long-lived assets.

We also recorded $18.2 million of MultiClient impairments in the quarter. I mentioned already the government grants. By Q3, we had recognized $23.2 million as other income. In Q4, we have recorded additional $15.5 million. With respect to our debt rescheduling, which I will revert to in much more detail later. A couple of points impacting the Q4 and year-end financials. All the debt involved is classified as short-term at December 31. The debt will be reclassified to long term in Q1 when the transaction is completed. Also, we have charged to expense $4.2 million of previously deferred debt issuance cost.

I go to -- then go to Q4 operational highlights. We had contracted revenues of $20.8 million in the fourth quarter. 8% of our total vessel time was used for contract acquisition and this related to a 4D survey in West Africa. The segment MultiClient revenues amounted to $131.1 million.

We had a pre-funding of 185%, impacted by sales of surveys acquired earlier in the year, but still in the processing phase. Late sales for the quarter was $70.1 million. On vessel utilization, we had low utilization in the quarter, 49% of -- we had 49% active vessel time in the quarter based on statistics of five vessels. The utilization will improve significantly in Q1 2021.

Moving to the balance sheet. A liquidity reserve of $156.7 million at year-end, book value of the MultiClient library of $616.1 million based on IFRS or as reported and $546.4 million according to our segment reporting. Note that the book value under IFRS, which is slightly higher than the segment book value should be seen in the context of deferred or not recognized revenues of $188 million at the end of the year, which will be recorded as revenues when the processing is completed and data delivered to the pre-funder.

Then cash flow. We have a lower cash flow from operation, both in the fourth quarter compared to last year and for the full year. This reduction is driven by significantly lower revenues, primarily. The working capital at year-end is impacted by approximately $30 million of Q2, Q3 sales with payment agreed early 2021. As earlier disclosed, this will obviously then benefit the first quarter.

Lastly, on this slide, I wanted to mention that other cash flow relating to other investing activities includes a legal deposit of $17.7 million relating to a tax case in Brazil.

I will pause here and give the word to Rune Olav.

Rune Olav Pedersen {BIO 16158611 <GO>}

Thank you, Gottfred, and good morning to everyone.

My talk this morning will evolve around the following themes. I will speak a little bit about 2020, a summary or recap of what we have been through this year. Then I will give some comments to the market outlook for 2021 and onwards. And also, we will talk a little bit about PGS' strategic direction and how it fits in with the energy transition we are currently experiencing. And lastly, I will come back to guidance.

But let's start with a 2020 review. As you know, 2020 developed very differently than expected. It became a very challenging year for PGS. We went into the year optimistic and had just refinanced in the beginning of the year. Then COVID-19 came and we have experienced a 30% (sic) [37%] revenue reduction caused by the COVID-19 pandemic and our clients' reaction to it.

We had to respond swiftly to this challenge and we did. And we have, through the year, substantially reduced our cost. We have reduced our CapEx by 50%, both versus what we expected to spend this year -- or last year, I'm sorry. And we have, as Gottfred touched upon, refinanced and extended maturities on most of our debt.

Well, in spite of the COVID-19 pandemic, we have been able to maintain strong vessel and imaging project execution. And I am both impressed and proud to say that our operations department have been able to keep our vessels going, complete crew changes in spite of tremendous challenges in this year.

Further, we have, in spite of the challenges we have experienced, also continued the digital transformation agenda, and we have delivered several milestones during the year.

Then as I will come back to and show you, we have also been able to capitalize on our integrated offering, being the only company with vessel and a large MultiClient business and an imaging business, so being integrated and operating through the value chain in seismic.

Well, then to 2021. So -- excuse me. So how do we view 2021 and onwards? Well, it is clear that we have started an energy transition in the world. It has accelerated through 2020. But it is also clear that the world will need oil and gas for decades still and therefore, also need seismic for decades still. And the best indications of where seismic spending moves from a low level is to look at the oil price. And the current oil price and outlook supports a market recovery.

We have a cash -- we have an oil price sitting well above $50 currently. And as you can see from the lower graph, the breakeven oil price after CapEx and dividend for our clients is sitting around $50 million. Therefore, we expect seismic spending to increase gradually in 2021 versus 2020.

Now, we have seen several investment houses and analysts and other oil companies showing that the increase or the overall E&P spending is expected to increase very limited and maybe even when you look at the overall offshore E&P spending dropped somewhat in 2020 versus '20 -- sorry, in 2021 versus 2020. And I would like to remind you all that seismic typically is an early cycle mover. And 2018 can here serve as an example, a year where offshore E&P spending dropped 70% and seismic spending increased 5%, as we showed in the Capital Markets Day for 2018.

So we expect, with this oil price, and as I will show you on the next slides and what we are seeing happening in the seismic industry, to see a gradual recovery into 2021 from 2020. And are we seeing it in our business? Yes, we are. We are seeing bids and leads withdrawn from the market in 2020 reemerging for execution in 2021.

And the slides you see here, which is the bids and leads curve give an indication of the bids we have in-house now and the leads that we are recording currently. If you look at that in combination with the fact that the industry order book -- order books are increasing. This is a positive sign. We also see a trend of increasing 4D activity, which is a typical early cycle sign. And we also saw that into '17 from '16 and into '18. So, what we are currently seeing in the seismic business is early indications of moving upwards.

For PGS, we will have a majority of our vessel capacity allocated to contract acquisition in 2021. And as I alluded to, the order book is up quite a bit from Q2 to Q4. And we -- as of year end, we had an order book of $202 million, $89 million of those related to MultiClient. And we have added further backlog to the order book after quarter end.

And based on this, as of end of January, the vessel booking sits as follows. We are fully booked on our five vessels in the first quarter. We have booked 13 vessel months in the second quarter and we have already booked 10 vessel months in the third quarter of 2021, which obviously is a significantly -- significant improvement to the vessel booking we saw at the end of Q3.

Now, we get a lot of questions on -- regarding the energy transition. Is it possible to make money in seismic if the demand never comes back to the earlier highs we have seen because of the energy transition? And the answer to that, in our view, is yes.

We believe that 2020 was a likely low point for the marine seismic industry. You see the supply side in the seismic industry has dropped continuously, more or less from '13 into 2020. We believe, as I said, 2020, late 2020, early '21 represents a low point. And that seismic supply will start to increase slowly again from summer season of 2021.

In 2013, there was 60, 6-0, seismic vessels operating worldwide. Today, well, we could probably say there is approximately 15 operating worldwide. In the same period, our PGS' operating costs are significantly down. So, we acknowledge and realize and hope that there is an energy transition. We expect it to accelerate, and we expect it to impact the seismic revenue potential going forward. However, as I've already said, oil and gas will continue to be a large part of the energy mix for decades to come, and there will be a need for seismic. And it is important to realize we do not need a return to the 2013 demand levels for PGS to generate healthy future cash flow.

In fact, the seismic industry will not be able to cope with a return to 2013 levels. So with the reduction in seismic supply, the adjustment of the PGS organization, we are positioned to deliver healthy future cash flow even if the seismic world and the seismic demand or the demand for seismic never returns to its earlier high. And a few more words on the energy transition. So, what does it do to seismic demand except for reducing it? I think it's clear that the energy transition drives the oil companies, our clients' focus from frontier exploration to the field and more mature hydrocarbon basins.

As you can see from the drawing we have made here with the arrow indicating typical segments in the seismic industry, if you can call it that, or at least different types of work, starting on the left with frontier exploration, which is typically 2D or sparse 3Ds over large areas. This is almost exclusively done as MultiClient. And it is not important to own vessel or technology in this market.

Then if you move one step to the right, you get to, what we have called, a targeted exploration. These are large, high-density 3D MultiClient surveys in proven hydrocarbon basins for exploration purposes. Now the importance of technology is increasing, and owning your own vessels can be a benefit or not, depending on the market conditions you are in.

If you move one step further, you will get to near-field exploration or in-license exploration, and this is where the marine contract business model typically starts to play. And here, as I will show you, you could play both contracts. It's in the license. It's near the field, or you could do multi-client as we do with -- typically with strong pre-funding.

And obviously, then the importance of technology and owning a vessel is increasing because you cannot do contract work if you're not owning your vessel. It just doesn't -- simply doesn't work that way. And then when you move to the 4D, which is the last dot there, which is production optimization or production seismic, seismic over a producing field, repeated seismic over a producing field, you have to have a vessel. It's always contract, and technology is of high importance.

We believe, as I said, that the demand for seismic will more and more switch towards, let's say, the right end of this scale, away from frontier exploration, which we believe will not grow going forward and all the way to the 4D market, which we actually expect to grow going forward. And access to high-capacity vessels and differentiating technologies will be important as we see this energy transition takes hold [ph] further.

You could almost say that the development we expect because of the energy transition will play into the strength of the PGS strategy. We are a leader in production 4D seismic with our high-capacity vessels with MultiClient -- no, sorry, multi-sensor streamers on all our vessels. We are deploying a joint contract and MultiClient approach, allowing us to play on every spector. And I will show some examples of how we have utilized that last year.

We will, in our MultiClient strategy, grow our MultiClient library in proven hydrocarbon basins and we will do it, continue to do it with high pre-funding. We do believe that optimizing operating cost and increasing efficiency will be important as energy transaction continues. And we will, therefore, focus our R&D on digital solutions and we will focus our R&D on giving a better image, which is important in 4D.

Now to 4D. The number of companies applying 4D to one or more fields have increased five-fold in the last 10 years, 12 years. We have been a leader in 4D for this entire period. We did acquire the world's largest 4D baseline survey in 2019. And I think it's fair to say that all new major discoveries generally consider 4D production optimizations early in the development cycle now. We expect this market to grow going forward.

Now if you look at the bottom-left graph, you see the number of 4Ds, and you see, in dark, the number of 4Ds being done by multi-sensors and then multi-sensor streamers like GeoStreamer. And you see the number of 4Ds being done with conventional streamers in light blue. As you can see, multi-sensor technology dominates and takes a larger share of the 4D streamer market all the time.

The GeoStreamer technology was the first multi-sensor streamer technology and is regarded as a benchmark for 4D acquisition systems. And it is important to note that if a 4D has been shot with a multi-sensor baseline or even just once, it will, for the remaining life of that field, remain a multi-sensor 4D acquisition or campaign. We have not seen examples of people going back to conventional streamers after first having done a multi-sensor streamer. And as most of you will know, we have multi-sensors technology on all our vessels and we have a very large market share of multi-sensor technology in the world. So, we believe we will retain a large market share in this growing part of the market.

Now over to why it is important to deploy a joint contract and MultiClient approach. And I will give two examples. The first example is from Egypt. Now, Egypt, this summer awarded seven large blocks, primarily to super majors. All these blocks or licenses need seismic on them. So, we are facing, what we will call, in-license exploration.

PGS have won all of this work. We have done several of these blocks under a MultiClient model, where we utilize the PGS MultiClient permit in the area. And we've done one of these surveys as a contract program. As I said, these acquisitions primarily cover held acreage awarded in recent licensing rounds. So, then you could ask, well, why are they then MultiClient? Well, because we have a MultiClient permit. We were able to start acquisition immediately after block ratification. This was important for several of these super majors to get going as soon as possible and then avoid a lengthy tendering process. And therefore, we were able to use that and get in and find a commercial model that worked for them and worked for us.

Now the late sales potential there obviously comes from farm-ins, et cetera. These are very large blocks, and there are few members in each of them. The contract survey, we are currently doing. They were not so keen to starting early, and they were more picky on the technology that they are deploying. And therefore, we won it more on that basis. So, we won 15 vessel months for Titan-class acquisition in the latter part of 2020. And we will be in Egypt well into the second quarter of 2021. And this just shows us that playing across these various business models delivers the best commercial value for both the client and for PGS.

A second example is Angola. We have been, and we still are the key seismic player in Angola. We're a trusted industry partner. We've been there for years. We've invested in there for years. And we operate in Angola all the way from supporting licensing rounds, doing proper MultiClient with low pre-funding just in front of a licensing round and then supporting the round with seismic.

We are currently generating revenue from the Namibe licensing round that happened last year, and we expect to generate more revenue from that MultiClient campaign in a very mature basin. We have done near-field exploration and in-license exploration, similar to the Egypt example, as we are currently shooting a large block in the MultiClient -- under the MultiClient business model, once again, for early access. And we've done several 4Ds in Angola. So a good example of where the integrated model plays to our advantage.

Now on to the MultiClient, which is kind of the next topic. So how will the energy transition impact our MultiClient strategy? As you can see here, we have a MultiClient library in all proven hydrocarbon basins in the world, more or less, and less so in frontier areas. And it is clear, as I said, going forward, we will only, to a very limited degree, invest in frontier area.

Our main focus will, going forward, be mature and proven hydrocarbon basins for investing in the MultiClient library. And the areas where there are activity is what determines where to invest and where we should expect revenues. And what you see on this slide are some of the activities we expect for 2021, which are of importance to PGS, either because we may consider to invest there or because we already have invested there and have library there.

I will comment on a few of them, starting maybe in the west, in the US GoM. Well, there is considerable uncertainty, at least I find it considerably uncertain, what will now happen in the US GoM as President Biden has frozen activity, so to say, for 60 days in the US Gulf of Mexico. And the last thing I heard was that there is -- the March licensing round is expected to be delayed at least. We don't have large exposure to the US GoM, which I will come back to.

Of greater interest to us is what is happening in Canada, where there will be a call for bids in Labrador South. And we expect to be back this summer for further acquisition in Canada. And these jobs are always highly pre-funded. Further south, I can move to Brazil, a very exciting area for us. The 17th round was moved from 2020 to October 2021. And we have, during 2020, and we are currently acquiring most of the blocks in the Campos Basin, which will be part of the 17th licensing round in Brazil. We are currently on-site acquiring that. So the outcome of that round will be exciting for PGS.

And then over to Norway. Obviously, we have the APA around just announced, which was active. And then we have the 25th licensing round coming up, mainly for blocks in the Barents Sea. And it's going to be interesting to see the tax changes, which supports an investment and activity, how that plays out for the seismic industry.

Egypt, I have talked about. We expect that to remain active during this year. Angola, the Namibe licensing round carried out last year is still in the process of being finalized, and we expect to see revenues from that going forward and also from new licensing round for deepwater blocks in 2021.

Then finally, I would like to mention Malaysia, which has announced a licensing round in Sabah and one in Sarawak. And as you know, we have a fairly large MultiClient library in the Sabah base. So quite a lot of activity around the world, which will be important for our MultiClient investments and also for the investments we have made earlier and potential late sales.

Now where did we do surveys in 2020? As you can see, we did surveys in Canada, Brazil, Norway, Egypt, Angola, mainly proven and rather mature hydrocarbon basins in line with our strategy. And I will skip to more on what did our MultiClient business generate of revenues and what we look like compared to our competitors.

As you can see from the net book value in Q3 and the segment revenues in 2020, we have a fairly large share of the total MultiClient libraries, a little bit more than 25%, to put it that way. And when you look at the revenues, it is important to note that revenues in MultiClient and then particularly late-sale revenues will fluctuate from quarter-to-quarter and from year-to-year, as we have always said.

And last year, we had a relatively weak year when you compare to our competitors. While we were relatively much stronger in 2008, and when you look at what we have been doing in 2020, we are, once again, relatively -- or compared to our peers, performing quite strongly. And we are the largest MultiClient player in Q2, Q3 and Q4 of 2020. So, we are quite satisfied with the investments we have done in earlier years and how we have played the MultiClient market this year.

You see the revenue over investment ratio, obviously dropping. 2020 was a very challenging year. But we are satisfied that we were able to maintain pre-funding level very close to 100%, also in a very challenging year as 2020 was.

I will be brief here. Africa and Middle East, main contributors to pre-funding revenues in 2020, and Europe and Africa, the main contributors to late sales revenue in 2020. And when you look at this, you see that the various regions where we have library continued or contributes in various degree in various quarter. And this will fluctuate also going forward, speaking to the importance of our geographically diversified library like we have in PGS.

The Gulf of Mexico, as I mentioned, after President Biden came to office, he has put a freeze on activity, if I could put it that way, for exploration activity for the US Gulf of Mexico. So, we thought it was important to inform you that we obviously have very limited revenues from the US Gulf of Mexico, which accounts for 1% to 3% of our annual MultiClient revenues from 2016 to '20.

And that we have not acquired seismic data in the Gulf of Mexico since 2014, and that is obviously out of our books by now. And we do have a segment MultiClient book value related to the US Gulf of Mexico of $19.2 million as of year end. And this is a reprocessing exercise we did on our Flex Vision data set. So it's never good to see freeze on activity, which is important to seismic, but it will have limited or no impact to PGS.

Once again, we show this as we normally do every year. What you see, we have solid MultiClient diversity and client mix. We sold MultiClient data to more than 80 different clients in 2020 and with good geographical sales diversity as we always do. And all the larger and smaller oil companies of the world are obviously our clients.

Then moving away from our MultiClient business and on to digitalization. As I said earlier, we continued to focus on digitalization and digital transformation, I will say, of PGS through this difficult year. We've had substantial progress on cloud-based MultiClient sales platform.

We have now uploaded most of our poststack MultiClient data to the cloud. And we have, as you know, announced a strategic partnership with TGS and CGG for a shared MultiClient market place. And it's going to be interesting to see how the three of us can utilize the MultiClient asset once it is available on the web and in the cloud. We have had tangible results in optimizing vessel operations. We are seeing effect on energy transition, and we are increasing our vessel speeds because we have been able to take the data, which we generate on our vessels, on our streamers and put it into context and push it out to the vessels again so that they can use these software tools based on machine learning algorithms and all the data we collect to optimize efficiency and speed.

And we've also entered into predictive maintenance, primarily on our streamers. And the picture you see on the bottom left is from that program, where we try to predict which stream resections are about to fail so that we can switch them out while we are deploying before they fail when they are in the water. And we're also looking into how we can improve HSEQ through this. So here, we have done a lot in 2020, but there is a lot more to do. And I'm looking forward to taking out further benefits of digitalization in this area.

Another area where we have progressed significantly is imaging or processing in the cloud. We have typically processed all the MultiClient data we acquire and data for external clients using supercomputers we have purchased. That is about to end. We are moving the processing from our own computers and onto the cloud, giving us flexible and scalable compute capacity at obviously much lower and obviously, a much lower CapEx exposure as we do not have to buy these supercomputers.

We will simply use the cloud when we need it, and we will use how much we need at any time. We have also deployed machine learning and artificial intelligence in the processing sequence and accelerating, therefore, the time from data acquisition to delivery to the client. So here, we have done a lot during the year and you should expect us to do quite a bit more over the next years.

Now on to guidance. We expect group cash cost to be below $400 million in 2021 -- or with five vessels active throughout the year. We expect to -- MultiClient cash investments to be approximately $150 million. And we expect to use approximately 45% of the active 3D vessel time in MultiClient acquisition. CapEx, we expect to be approximately $40 million in 2021.

So in summary, we have proactively addressed a very challenging 2020 seismic market. We believe that 2021 is likely to show a gradual or slow recovery versus 2020. We base that on higher oil price, giving positive cash flow amongst our clients. And that deferred activity from 2020 is coming back in 2021. And we have seen, obviously, booking and backlog increase quite a bit in the earlier part of 2021. So, we are positioned for earnings improvement with low cost and lowest industry supply for decades.

As I've spoken to, the integrated service offering position PGS for the energy transition. We believe the energy transition plays to that strategic model. And we have used 2020 to kick start or kick off the digital transformation to accelerate strategy execution such as more efficient and less costly acquisition and imaging in PGS.

And with that, I give the word back to Gottfred to take you through more of the financials.

Gottfred Langseth {BIO 5277539 <GO>}

Thank you, Rune.

Starting first with the slide, financial strategy. Our financial strategy is to deliver profitability before growth. Our primary focus would be on cash flow and profitability. And we will be moderate on CapEx as we go forward. We aim to deliver a return on capital employed higher than our cost of capital over the cycle. And a key priority is to reduce debt and get to a capital structure that will sustain future downturns.

We will, therefore, apply our cash generation, primarily to reduce debt with a target of the net debt level to be below $500 million to $600 million. So, our financial strategy remains unchanged from what we talked about earlier. But the developments that we have experienced in 2020 have extended our expected time line to deliver on this strategy, including the targeted capital structure.

Moving to our rescheduling of debt maturities. In the fourth quarter, we agreed amendments to our loan agreements with all parties to the export credit facilities and all, except one lender to the RCF and TLB facilities. Therefore, we have to move through a scheme of arrangement in UK to make these amendments effective for everyone. The scheme was sanctioned by the court two days ago. And we are now proceeding to close the transaction, which is expected to happen during February.

The agreements in short defer all scheduled debt maturities and amortizations to September 2022 and beyond. The fees that the agreement provides for the lenders is $8 million of cash fees to the lenders and $8.4 million of so-called PIK, or payment-in-kind fees to those lenders. And payment in kind in practice means that the fees amount is added to the loan balance and repaid together with the loan.

Lastly, on this slide, we will issue NOK116.2 million convertible bond. NOK67 million of that will be settled or has been subscribed for by exchange of a corresponding RCF/TLB amount so that those loans will reduce correspondingly. And the remaining NOK49 million will be issued against cash payment to PGS.

More details on the main terms on the next slide. I would seek to be relatively quick on this. The $350 million RCF that we have had for some time will be converted into a TLB. So the facilities will now be combined into a term loan maturing in 2024 at a total amount of $873 million, which takes into account the PIK fees and the deduct -- addition of the PIK fees and deduction of amounts exchange into the convertible bond. And this TLB will have an amortization profile, as shown on this list, with the first amortization, $135 million starting in -- or in September 2022.

With respect to the export credit financing, all amortization through to second half of 2022 is deferred, total of approximately $106 million. And that will then be repaid over one year approximately, starting December 2022. There will be an excess cash flow -- excess liquidity sweep, which applies to liquidity above $200 million until the first installment on the TLB and the deferred ECF amounts have been repaid. And beyond that date, there would be a similar sweep for liquidity reserve over $175 million at each quarter end. The financial maintenance covenants have been amended. Particularly, the leverage ratio is increased to start at 4.5 times and then gradually reduce to get back to 2.75 times by 2023.

Yeah. I move on to the next slide. And very short, the slide shows the changes to the amortization profile. And as you can see, eliminate -- we are eliminating all maturities through the first half '22. And those are then recaptured over the period from September '22 to March 2024.

I included a slide on capital leases. Some short comments. As of now or start 2021, the recorded lease liability is $159 million. The amortization or repayment for 2021 would be approximately $40 million, which is less than what we had for 2020. Most of the lease liabilities relate to vessels, approximately 70%. And most of the liability, again, is dominated in US dollars.

I then move to cost and the quarterly cash cost illustration. $80 million of cash cost in the fourth quarter. You'll see that there is a strong reduction over the three last quarters of 2020. So the fourth quarter captured all of the effects from our cost savings and also was impacted by low vessel utilization or survey activity level. Therefore, also, the $80 million we had in Q4 is below our run rate cost with normal utilization. And we will have a sequential increase in Q1 '21 as utilization already will be significantly higher.

On the annual numbers, the 2020 gross cash cost ended at $426 million. And as we pointed to earlier, this is a reduction from the initial plan. And what we said on last year's Capital Markets Day, $600 million, so close to -- or $175 million reduction for this year. The run rate reduction is more than $200 million, as we expect 2021 cash cost to be below 400 with five vessels.

Cost estimate there is based on the market pricing and exchange rates and similarly applying at the start of this year. And of some importance, the kroner-dollar exchange rate, we have applied is 8.55. And the oil price used for fuel cost estimation is approximately $55 Brent.

We move then to CapEx. $36 million of CapEx for the full year 2020. We expect or plan for a slight increase in 2021 to $40 million approximately. Half of that relates to streamer investments, including investments in the next-generation GeoStreamer. We expect the gross depreciation to be approximately $150 million. Portion of that will be capitalized, as we use vessels and imaging equipment for MultiClient projects, approximately $50 million expected to be capitalized.

Then on the MultiClient financials. We have a solid track record of delivering pre-funding in or above our targeted range, as you will see from the illustration to the top left. For 2020, we had a pre-funding of 98% on $222 million of investments. We plan to invest less in the coming year, as Rune has pointed to, approximately $150 million and using approximately 45% of our vessel capacity.

I move to tax. This graph shows our cash tax payments over recent years. We operate our largest vessels in the Norwegian tonnage tax regime. Our current tax or cash tax typically is determined by withholding taxes in countries where we acquire surveys or where we are -- see tax resident and have no carryforward tax losses, typically varied between $10 million and $35 million per year.

I move to foreign currency and sensitivity. This is a probably known territory. But a fairly significant portion of our cash cost and CapEx is in non-US currencies. Obviously, majority is in US dollars, but there is a significant portion of Norwegian kroner and British pounds, most importantly. And we, therefore, strong US dollars, as has been the case throughout 2020 mostly, benefits our reported cost and vice versa.

A 10% change between -- we're just checking this out. Thank you. A 10% change of the dollar-kroner exchange rate has a $10 million to $12 million full year effect on our EBIT, and a similar 10% change for British pounds against the dollar has approximately half of that effect. We do not hedge leasing commitments in Norwegian kroner since we see that as close to being natural hedges.

Then I'm at my last slide. And to sum up, we have achieved an extension of debt maturities and amortization to September 2022 and beyond, and we're very satisfied with that. We do focus on cash flow to reduce debt and to manage the new maturity profile that we have established with the ongoing amendment. We have reduced our cash cost run rate with more than $200 million or more than 33%. CapEx has been reduced by 50%. We will continue to exercise cost and CapEx discipline as we move forward.

I will stop there. And then I believe we are ready for Q&A.

Questions And Answers

A - Bard Stenberg {BIO 19147078 <GO>}

Yeah. Right. We have some questions already from the audience. So, we have the first question from Jorgen Lande in Danskebank. You seem to plan for a higher contract allocation in 2021. Can you just explain why you do this and also link this to the pre-funding levels you are currently facing?"

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

Yes. I can comment on that. The reason for that is quite simply, what we have currently booked and what is sitting in our backlog versus the MultiClient programs we are currently planning. So it's -- it is, of course, driven by the market demand that we see for our services currently. And in that, there is, of course, an estimation of what we will do in the parts of the year in the fourth quarter and parts of the third quarter, which we have not booked, which may, of course, change. But this is the way we see it right now. There is no, let's say, link to do pre-funding here, to put it that way. It's linked to, as I said, the demand for contract services and when we believe we will do and how we will allocate our resources in MultiClient.

A - Bard Stenberg {BIO 19147078 <GO>}

Then we have another question from do you plan to take out other vessels from (inaudible). Do you plan to take out other vessels from layup?

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

Well, we are currently planning on operating five vessels through 2021. But it is also clear that we have experienced significant booking. We're fully booked for the first quarter. We have strong booking both in the second quarter and third quarter. So, I will not rule out the possibility of introducing a sixth vessel to the summer season. But that is a decision we will take, if and when demand is there for such a sixth vessel.

A - Bard Stenberg {BIO 19147078 <GO>}

Yeah. Then we have some questions from John Olaisen in ABG Sundal Collier. Polarcus has initiated a sales process of its vessels. It would be interesting to hear some comments from you on this situation. And then he also asks, are you interested in acquiring the Polarcus vessels?

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

Well, first of all, I'd just say we have quite a few vessels in PGS, as I indicated also in the last question in layup. I don't think I will comment too much upon the Polarcus situation. It is quite sensitive and a challenging situation for Polarcus as a company.

A - Bard Stenberg {BIO 19147078 <GO>}

Yeah. Then we have further -- some questions related to Polarcus. Have you been -- have you seen any effects of the Polarcus situation, for example, oil companies contacting you to take over some other jobs that Polarcus was supposed to undertake in 2021?

And do you think the Polarcus' vessels will be out of the market? Potentially, there will be only two significant vessel owners left in the market, PGS and Shearwater, which leads to (Technical Difficulty) improved industry discipline, higher utilization and better pricing.

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

Well, that was a lot in one. I can say that it is clear, Polarcus has, as announced, broken off from the operations they had. And as far as we understand, informed clients that they will not be performing the works -- the work they had in their backlog. And yes, we have been contacted by clients in this respect. I think is that is what I can say. Basically, after the announcement, this came as a shock to us, as it did to everyone else.

With respect to the market development, I think you summed it up in your question. There is a chance that there will be only two players in the market. We have both of us significant vessels. It will be how -- whether this will be more disciplined or what they will do. The supply side is both a function of the vessels and the function of what is available of streamers, obviously, both within PGS and Shearwater and on the Polarcus vessels. I don't know how long the Polarcus vessels will stay out of the market. But when Dolphin were put in a similar situation, those vessels were out for approximately a year. So at least it is -- I guess it's reasonable to expect that in the short term, these vessels will not be part of the seismic market.

A - Bard Stenberg {BIO 19147078 <GO>}

John Olaisen asks another question somewhat related to question from Jorgen Lande. He says, 45% of active fleet allocation to MultiClient is a move towards less MultiClient and more contract. Is this a deliberate, strategic shift or just a minor effect of the short-term opportunities? And then he also wonders whether it will be possible to give some indications of expected 2021 pre-funding levels.

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

Yeah. On the pre-funding levels, we will not say anything more than that. We expect to stay within 80% to 20 -- sorry, 80% to 120% range also in 2021. And also linked to my comments that we will focus on high pre-funding also going forward, I guess, could support that statement. With respect to the 45%, I think it is -- you should assume that if the market remains as it is, we will be around 50-50.

And it will be more, call it, opportunistic swings between around the 50-50 mark, depending on market demand and where we have vessel, how that fits with where the demand is and whether we do some of these surveys as MultiClient or contract in these near-field exploration, in-license integration may also affect this. So it's -- I don't think it's a deliberate move towards more contract going to 45%. We had more than we expected of MultiClient last year and now we're gravitating more back to the 50-50 mark, which we have been at.

A - Bard Stenberg {BIO 19147078 <GO>}

Next question is from Christopher Mollerlokken in Carnegie. You talked about the demand for 4D surveys, but 4D surveys tend to be relatively smaller in size. Wouldn't your large Ramform vessels be competitively disadvantaged versus smaller seismic vessels?

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

No. And I think the history shows that, that's not the case. Yes, some of the 4Ds, and maybe as I am referring to the 4Ds in the North Sea, are of smaller size. But obviously, the 4Ds that we see moving forward are also of very large sizes. I mean, I referred to the largest 4D we have done in 2019. It was several months of Ramform Titan acquisition. So, this varies. But I think it is -- to this point, it is important, and we have stated it is important before to have a diversified fleet. And we would hope to be able to introduce, over time, more of our vessels so that we have some vessels that are smaller and some vessels that are larger, which brings a better balance because most different surveys require different configuration and sizes of vessels.

A - Bard Stenberg {BIO 19147078 <GO>}

And next question is from Stig Erik Kyrkjeeide in Kepler Cheuvreux. You have 100% coverage for Q1 and 77% coverage combined for Q2 and Q3 versus 58% coverage for Q2 and Q3 last year. Are you starting to see some price traction for Q2 and Q3 based on this booked position?

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

I will be -- I mean we talked about -- we are a very small industry. So, I will be very careful commenting on prices and what we see on pricing. I think I will limit to myself to saying that the prices we have seen hasn't dropped this time as far as it dropped in 2015 and '16 when there was an abundance of seismic vessels in the market and the demand dropped.

It was more dramatic then in terms of pricing than what we see now. And other than that, I will be careful in our very consolidated industry to comment on pricing.

A - Bard Stenberg {BIO 19147078 <GO>}

Then he further asks, can you update on timing to reactivate and related CapEx for the three vessels taken out in 2020?

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

Yes, we can. It will only take weeks maybe to introduce the first, maybe a month. So, we can delay that decision to fairly close to when we see we have sufficient work for that vessel. Then it takes a little bit more time for the -- for, let's say, the sixth and seventh vessel and probably even more time for the eighth vessel. And depending on how long it will take before we, let's say, introduce the eight, we may need a new streamer set for the eighth vessel if it takes quite a bit of time before that is introduced. And then, obviously, the lead time is longer for that vessel.

A - Bard Stenberg {BIO 19147078 <GO>}

Yeah. And what about CapEx that we introduced?

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

Yeah. There is limited, very limited CapEx for the first and probably also for the second. But as I said, if we go to the eighth and if that is, let's say, a year or two or whenever that may be, we will probably need to bring new streamer sets of, what, $40 million to reactivate that.

A - Bard Stenberg {BIO 19147078 <GO>}

Then another question from Stig Erik. The 2021 MultiClient CapEx guidance, is it -- it is based on the industry environment as is. Or does it take into account a gradual improvement in the seismic market during 2021?"

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

The MultiClient guidance is based on, as I said, how we see the industry right now, how we -- first of all, what we have booked, what we see there and then what we have not booked in the fourth quarter and in the second quarter and third quarter and what we think we are then going to do with our vessels. So, I'm not sure is it correct to say it takes into account a gradual recovery. It more is a reflection of what we currently see.

A - Bard Stenberg {BIO 19147078 <GO>}

Then we have another question regarding Ocean Floor Geophysics. And if we can elaborate a bit on our expectations and plans in terms of corporation or cooperating with Ocean Floor Geophysics.

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

Yeah. This is a company where we have an ownership share. They have taken over our EM equipment and our everything suitable to do an EM business. So, we will, of course, to the extent possible help them generate revenues from that business. I don't think I will comment too much about what other plans we may or may not have together with them. We think they are an interesting company with good people and interesting ideas, which we may cooperate with also on other things.

A - Bard Stenberg {BIO 19147078 <GO>}

Then we have a question from Amy Wong in UBS. On the US Gulf of Mexico, I understand it's not a material part of your MultiClient book. As I say, you seem to have had the foresight to reduce investment in that region. What are your thoughts on other governments that might put more tighter restrictions on new leases and exploration?

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

It's obviously a difficult question to answer. And this came as a surprise to me, I should say, as well as probably everyone else, although we had noted President Biden's comments in his campaign, obviously, as I'm sure our competitors had as well. What will happen in other regions? We try to follow. We try to follow the political debate in the most active areas where we operate and we take that into account when we invest. But it is a very, very mixed picture around the world. And I'm not, on aggregate, not very concerned that a lot of governments will impose this to the extent that it will have a very large impact on the global seismic industry in the near term at least. But it's a difficult question to answer, I must say.

A - Bard Stenberg {BIO 19147078 <GO>}

Another question from Amy Wong. On your joint venture with TGS and CGG, could you talk more about the time line, client reaction and material investments in the platform?

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

No, I think I will be cautious there. We will, of course, the three of us, I mean we are in this together. So, I will be cautious commenting too much on it alone in respect for the other two. So, we will try to announce and make announcement to the market as we progress. I have not heard anything negative from any clients after this. The clients of PGS are generally very excited about what we are doing in the digital space, including the fact that we're moving our MultiClient library into the cloud and making it available electronically, which obviously allows for a different way of consumption of the MultiClient library, a different way of transferring library, immediate access, et cetera, et cetera. And this is a development very much supported by our client, and the cooperation on the market platform with CGG and TGS is a step in this direction. So, so far, we've only received positive feedback on the TGS side.

A - Bard Stenberg {BIO 19147078 <GO>}

Then we have another question from Christopher Mollerlokken in Carnegie. What would be a fair assumption for vessel steaming and yard stays and standby for Q1 2021?

A - Gottfred Langseth {BIO 5277539 <GO>}

I don't think we want to the specific. I think it is, on average, over the years, we have used 2% to 4% of our time on the yard and a bit over 10% on streaming. And I don't think we will go into specific indications on specific quarters.

A - Bard Stenberg {BIO 19147078 <GO>}

Next question is from Mick Pickup in Barclays. You talked of next-generation GeoStreamer. What does this bring?

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

Yes. It is -- first -- I would say, first and foremost, it brings a much cheaper streamer in production. It will be cheaper to produce the actual streamer and quite significantly cheaper than what it is today. That is the first benefit. And it is more operational, solid, so that it will be less subject to wear and tear and therefore, hopefully, should also be cheaper to operate.

And we would -- we try to address the operational challenges on it. So it's more on efficiency and cost of production than it is to, let's say, improve image. There are also, obviously, if you talk to our experts, some improvements to what we can do on the imaging side and things like that. But for this perspective, it's more on cost and efficiency.

A - Bard Stenberg {BIO 19147078 <GO>}

Thank you, Rune. At this moment, we don't have any further questions. So, we can pause for a moment to allow people to type in their questions if there's any last minute questions from the audience.

As there are no further questions, that concludes this presentation. So thank you all for participating, and goodbye.