

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

PGS.OL - Q1 2019 Petroleum Geo Services ASA Earnings Call (Morning)

EVENT DATE/TIME: APRIL 25, 2019 / 7:00AM GMT



APRIL 25, 2019 / 7:00AM, PGS.OL - Q1 2019 Petroleum Geo Services ASA Earnings Call (Morning)

CORPORATE PARTICIPANTS

Bård Stenberg *Petroleum Geo-Services ASA - Senior VP of IR & Communication*

Gottfred Langseth *Petroleum Geo-Services ASA - CFO & Executive VP*

Rune Olav Pedersen *Petroleum Geo-Services ASA - President & CEO*

CONFERENCE CALL PARTICIPANTS

Glenn Lodden *Nordea Markets, Research Division - Analyst*

John A. Schj. Olaisen *ABG Sundal Collier Holding ASA, Research Division - Co-head of Global Research*

Sahar Islam *Goldman Sachs Group Inc., Research Division - Analyst*

Terje Fatnes *SEB, Research Division - Analyst*

PRESENTATION

Bård Stenberg - *Petroleum Geo-Services ASA - Senior VP of IR & Communication*

Good morning, and welcome to this presentation of PGS Q1 2019 results. My name is Bård Stenberg, Senior Vice President of Investor Relations and Communications. Today's presentation is being followed by a conference call, and people on the conference call are invited to ask questions after management's concluding remarks.

Before we start, I would like to give some practical information. As we are broadcasting this presentation, I kindly ask the audience in Oslo to use the microphones provided when asking questions. Please also take notice of the emergency exits in the back of the room. And if the alarm is sounded, please evacuate immediately.

I would also like to draw your attention to the cautionary statement showing on the screen and available in today's presentation and earnings release.

Today's presentation will be given by CEO, Rune Olav Pedersen; and CFO, Gottfred Langseth.

So with that, it's my pleasure to give it over to you, Rune Olav.

Rune Olav Pedersen - *Petroleum Geo-Services ASA - President & CEO*

Thank you, Bård, and good morning, everyone. The headline of our first quarter earnings release is weak results, full year intact. And we will try, during this presentation, to explain why we believe both of those statements are correct.

The first quarter in 2019 were impacted by the seasonal distributions of our 2019 MultiClient investments with an overweight of low prefunded surveys, and I will come back to that in more details on the next slide. This will reverse in the coming quarters. And currently, we see prefunding levels in the upper half of the guided interval of 80% to 120% for the full year of 2019.

During the first quarter, we did experience a strong order book increase. That booking -- or that increase in the order book is continuing into April, which I will come back to. And we are currently booking new work at higher prices than we did last year. And the booked capacity in 2019 is now more than 35% higher than the average price we achieved in 2018, which obviously is very positive.

As we mentioned, we delivered lower prefunding in the second -- sorry, in the first quarter of 2019, than what we normally do. And I will try to explain a little bit why that happened.



APRIL 25, 2019 / 7:00AM, PGS.OL - Q1 2019 Petroleum Geo Services ASA Earnings Call (Morning)

In any given year, we typically do between 10 and 20 MultiClient projects. And we have a portfolio approach to our MultiClient business when it comes to the prefunding level we require. That means that in every year, we do several projects with very high prefunding, and we do several projects with low or no prefunding, and then obviously several projects in the middle.

In the first quarter, we had 4 of our vessels occupied on prefunding -- sorry, on MultiClient work: PGS Apollo in Indonesia with prefunding and then 3 projects with low or no prefunding, which I will now go through and explain a little bit more related to.

We had the Ramform Sovereign in Angola shooting MultiClient on what we call the Kwanza Shelf. This is a project which plays -- which is on top of an area which we expect -- where we expect there will be a licensing round towards the end of this year. Angola is changing its licensing regime. And we expect this area, as I said, to be part of our licensing round either at the end of this year or maybe early next year. And it's good to position a MultiClient program at this stage in front of a later round so that we have early-out and fast-track data available for the round.

Secondly, Ramform Hyperion did MultiClient in the Sabah area in Malaysia. This is the sixth phase of this large MultiClient program, which we have shot, and WesternGeco has shot part of that as well. As you will recall, we've had strong both prefunding and license or late prefunding from this area and the other phases, and we expect the same to be the case for this phase of the Sabah project. And we also expect to go back and shoot next phases of the Sabah program.

There is a bid round closing in the area, closing in these dates. And we hope that this will result in sales from this and other phases of the Sabah program. And for those of you who follow our Capital Markets Day, you will recognize how we build MultiClient programs in an area with several phases. This is the same thing we have done with success in the North Sea and we're now trying to replicate in this area here.

The last project is a MultiClient project off the coast of Guinea with Ramform Atlas. We won the MultiClient rights in Guinea in competition with other seismic companies towards the end of last year. And we had worked up MultiClient projects in the area. We did not plan to do it in the first quarter. And the reason we ended up doing this in the first quarter rather than in later quarters is the fact that Ramform Atlas was thrown out of Guinea as a consequence of the, how should I call it, the Venezuelan Navy bringing our vessels out of the area and further into Guinean waters, which we discussed on the Capital Markets Day.

The Ramform Atlas should have been in Guyana together with the Tethys. However, when the Atlas was forced out of country, we were happy to have this project to go to, which we believe will generate quite a bit of prefunding and late sales. And we do expect award of this area during the second or third quarter this year.

So all of these projects should deliver sales to us both in the '19 and in later years. If we have -- or in a normal year, we would not have done Guinea together with the 2 other low prefunding contracts, rather mix this up and do it later in the year so that the level of prefunding in the quarter would be more in line with what we normally do. But all of these projects are good projects, which we expect will deliver through the internal guideline we have set for our MultiClient projects. So that's a little bit of an explanation to why the prefunding was so unusually low in the first quarter.

On the financial summary, I will be brief as Gottfred will come back more to this. But obviously you see both revenues and EBITDA sequentially lower than what we have seen in the later quarters, more positive. The cash flow from operations, quite high, obviously due to a positive working capital development during the quarter where we have realized -- or we have received cash from the strong sales in the fourth quarter.

On the order book, the order book was up quite significantly at the end of the quarter. And on the 31st of March, it was sitting at \$238 million. This development has continued into April. And we are, as we speak, in the process of finalizing several new contracts, which has a minimum value of \$68 million. That will obviously add to the order book in the next days or week.

That results in a vessel booking for Q2 where we are fully booked. 20 vessel months for Q3 and 8 vessel months for Q4. So the order book, the pricing and the booking results in a significantly improved visibility for the year. We expect strong utilization in the second and third quarter. And we are, of course, working to increase our bookings also in the fourth quarter. And that is why we say that even though the first quarter is weak, that the full year is intact.



APRIL 25, 2019 / 7:00AM, PGS.OL - Q1 2019 Petroleum Geo Services ASA Earnings Call (Morning)

And with that, I hand over to you, Gottfred.

Gottfred Langseth - *Petroleum Geo-Services ASA - CFO & Executive VP*

Thank you. I included the first slide on IFRS 16 just to remind everyone on the numbers impact of this new accounting standard, exactly the same as we showed on our Capital Markets Day.

So that main impact, in short, for the full year 2019, it's a reduction of the reported gross cash costs, \$50 million; a reduction of capitalized cash investments in the library, \$20 million, depending on vessel utilization; the lease costs that had been a part of the gross cash cost reported will now instead be reported as partly depreciation, estimated \$40 million for the year and interest expense estimated at \$15 million for the year. The impact by quarter is, including the first quarter, is approximately 25% or 1/4 of this figure.

Moving to the key financial figures, starting with the segment reporting numbers. Segment revenues of \$141.9 million, segment EBITDA was \$66.6 million and segment EBIT was a loss of \$29.3 million. The as-reported numbers or the numbers in accordance with IFRS, revenues and EBIT, slightly lower than the segment numbers. This is purely down to timing of when MultiClient projects are completed and the final data delivered. And this is partly a reversal of the higher as-reported numbers that we had last year, as you can see in the column to the right.

Some other line items to comment on. Net financial items for the quarter, \$22 million of costs. That's the same as we had in Q1 last year. We had a quite low income tax expense in the quarter, \$0.6 million. We did not have any operations in countries landing high withholding taxes in this first quarter. We typically -- it's typically the case in most quarters.

Net cash flow from operations, strong, \$119.4 million, benefiting from working capital reduction, as I will refer to. Cash investment in the library in the quarter, \$62 million, a bit higher than the \$53 million we had in Q1 last year. And as Rune had pointed to, we had 4 out of our 6 operated 3D vessels on MultiClient projects for more or less the whole quarter. CapEx in the first quarter, \$11.5 million. Most of that relates to the reactivation of Ramform Vanguard.

Q1 operational highlights. Total Segment MultiClient revenues, \$90.9 million. Rune explained the overweight of low prefunded MultiClient projects in the quarter. The result of that was that prefunding tended at 48% of capitalized cash investments. This is an outlier, a clear outlier compared to what we typically report. You can see that from the illustration to the upper right, and it's also an outlier compared to what we expect to report going forward.

On late sales, there were limited triggers in Q1. Still, sales inside normal seasonal fluctuations for the 3 first quarters of the year. Contract revenues of \$44 million starting to benefit from the higher pricing, but clearly still impacted by some projects in the first quarter with the seasonally low pricing.

MultiClient revenues by region. The prefunding in the first quarter were primarily contributed by projects in Asia Pacific. Late sales dominated by our Europe and South Africa -- sorry, South America library.

Vessel utilization, 67% active vessel time in the first quarter. We had 27% stacked and standby. That's the top part of the chart in purple. Most of that is explained by the fact that we have 2 out of 8 vessels warm stacked through the quarter. In addition, we had some idle time on other vessels but not that much. We expect high utilization in second and third quarter. For the second quarter, specifically, we expect to use approximately 50% or half of our active capacity for MultiClient. So there has been a fairly even split between contract and MultiClient activity in the upcoming quarter.

On cash costs, developing as expected, \$136 million for the quarter. The impact in this quarter obviously by the implementation of IFRS 16, as explained. That's important. In addition, we had higher project-specific costs on some of the surveys in Q1.

Cash flows. The cash from operations, significantly higher than our EBITDA for the quarter, as you will see, benefited from collections of parts, of course, on the strong sales that we had in the fourth quarter of the last year. We have received the first 50% payment -- or did receive in Q1 the



APRIL 25, 2019 / 7:00AM, PGS.OL - Q1 2019 Petroleum Geo Services ASA Earnings Call (Morning)

first 50% relating to Ramform Sterling. The net cash flow impact for us in the quarter was \$44.6 million after deducting the cost to relocate and make the vessel ready for delivery. And this amount is included in investing activities, not in operating cash flow obviously. In addition, we incurred \$7.1 million of CapEx relating to reactivating Vanguard, which in a way is related to the fact that we're selling Ramform Sterling.

Balance sheet. The net interest-bearing debt, excluding lease liabilities, \$1,051.7 million. This is approximately \$100 million lower than a year back, approximately \$60 million lower than start of the year. Liquidity reserve of \$205.4 million, that's an increase of approximately \$55 million in the quarter.

Our total leverage ratio, as defined in our credit agreement, 2.85. That's an increase from start of the year. Headroom to the required levels seems substantial, and we expect the ratio to reduce over the coming quarters.

Moving to debt and drawing facilities, an overview of the facilities, no significant changes. We have reduced the drawing on the revolving credit facility by \$30 million in the quarter. In addition, the term loan and the export credit financing outstanding amounts are reduced by the scheduled debt amortization in the quarter. We are likely to refinance in 2019. We are positioned to execute on short notice. The exact timing and structure will depend on the market conditions.

Lastly from my side, we have decided to start a new practice, which is to preannounce quarterly revenues. This has, in a way, become a kind of industry practice due to the variability of MultiClient revenues. We will announce -- make this announcement on the 7th working day in Norway after quarter end. And then announcements will include vessel allocation, which we have to report it for 15 years or so, and revenues. The announcement may include additional information to the extent that is relevant or required under the circumstances. And we will start doing this with effect from Q2 of this year.

I will stop there. And Rune, I hand the podium back to you.

Rune Olav Pedersen - *Petroleum Geo-Services ASA - President & CEO*

Thank you, Gottfred. Let me see, yes, streamer operations in April 2019. You see the Ramform Tethys in Guyana, and we expect her to remain in Guyana in the foreseeable future and we'll see how long.

Moving eastwards, you see Ramform Atlas in Guinea, which I explained. And we have Ramform Titan in -- on a contract job in Algeria. Both these vessels will transit to Canada for a full season of MultiClient work in Canada starting in the second quarter, together with our 2D vessel, Sanco Atlantic, which is not on the chart.

The Ramform Vanguard is in the process of being reactivated in the North Sea and will start on a 4D job in the North Sea in the beginning of May. Sanco Swift is currently doing work in the U.K. and will move on to MultiClient work in the North Sea in the second quarter and continue into the third quarter.

Let me see, and then we have Ramform Sovereign currently doing the Kwanza Shelf MultiClient project in Angola. It will soon move from that MultiClient project and onto a 4D -- a large 4D job in Angola and thereafter back again probably to the Kwanza Shelf to complete that MultiClient program. So we expect the Sovereign to remain in Angola for the remainder of the year.

PGS Apollo in Indonesia and she will be on that MultiClient project until July at least. And we'll see where she goes from there. Ramform Hyperion, currently in Australia, and we expect her to stay there at least during the second quarter and most likely stay in the region for the remainder of the year. So that is where we have our 8 streamer -- or 3D streamer operations currently and also into the second quarter.

A little update now on the sale of the Ramform Sterling to JOGMEC in Japan and the related service agreements. We have delivered Ramform Sterling to JOGMEC, the Japanese entity taking the vessel. The sales price is approximately \$103 million, excluding streamers. And as Gottfred mentioned, we did receive the first 50% installment during March this year. And we received the second installment, approximately 26%, yesterday from Japan. And the remaining installment will be received in a year's time. We have entered into all agreements with respect to this entire project,

APRIL 25, 2019 / 7:00AM, PGS.OL - Q1 2019 Petroleum Geo Services ASA Earnings Call (Morning)

and that includes obviously service agreements for up to 10 years with a joint venture in Japan. And those -- that 10-year agreement has annual renewals.

The Ramform Vanguard, as we have mentioned, is in the process of being reactivated and will be in operations from early main -- early in May, I should say, in 2019. And that will maintain our operational fleet size of 8 vessels during Q2 and Q3. And we have also reached an agreement to buy back the Shigen, and she will soon be renamed Ramform Victory, her original name. And we are likely to use her as a source vessel on existing projects during 2019. And she will not be introduced to our fleet as a new 3D vessel at this time.

So to the seismic market outlook. There's not much change here. We still believe that the significant cash flow that our clients are experiencing and their increase in CapEx spending will contribute to a further strengthening of the marine seismic market. We still believe that the marine contract market is the segment that will benefit the most from this strengthening. And we just repeat that our pricing on booked capacity in 2019 is more than 35% higher than the average price achieved in 2018. And this obviously is also confirmed by the significant contract awards year-to-date, which we have talked about.

You can see the sales and leads graph there on the top, reducing from the top towards the end of last year and now flattening out and increasing a little bit again. We see that as a result of projects moving from the sales and leads into the backlog. Basically, you can see that we have had a 46% increase in our backlog. That is obviously taken out of the sales and leads, which we saw towards the end of last year. So we don't see this as a dramatic development for the market. We still believe that the seismic volume shot in 2019 will be approximately 10% to 15% higher than in '18.

On the supply side, we see no material short-term changes to that. You can see that more or less, over the last 2 years, there's been a slight decrease in capacity, but more or less the same capacity over the last 2 years. And we expect that to go -- to continue into '19. And we expect that the industry will be more or less fully utilized during 2019.

Guidance, unchanged. Group cash cost of approximately \$550 million, excluding deferred steaming. MultiClient cash investments of approximately \$250 million where more than 50% of our active 3D capacity will be allocated to MultiClient. And CapEx of approximately \$85 million.

So in summary, the first quarter results were impacted by an overweight of low prefunded MultiClient survey, which I've been through. And we repeat that we believe that the full year prefunding will be in the upper half of the guided interval of -- the guided interval being 80% to 120% of cash investments.

We have seen a strong order book increase. That has continued into April. And that increase is done with contract prices which are significantly higher than what we achieved in 2018.

So seismic market is recovering. It is a gradual recovery still. It's not a hockey stick recovery we're seeing. It's a gradual recovery. But we expected gradual recovery to continue into 2019. And we are very pleased with our position as the only fully integrated seismic provider with both MultiClient or in contract, owning vessels on R&D and imaging. And we expect this to continue to benefit us in the years to come.

With that, Bård, I think we can open up for questions.

Bård Stenberg - Petroleum Geo-Services ASA - Senior VP of IR & Communication

Yes. We can open up for questions. And if there's any questions from the people in the audience in Oslo, we can start with them.



APRIL 25, 2019 / 7:00AM, PGS.OL - Q1 2019 Petroleum Geo Services ASA Earnings Call (Morning)

QUESTIONS AND ANSWERS

Glenn Lodden - *Nordea Markets, Research Division - Analyst*

Glenn Lodden, Nordea. You mentioned that we're looking at further order book inflow, so to speak, but you won't be working your way through the order book during the second quarter. Do you expect the order book net and net to be higher at the end of the second quarter compared to the first?

Rune Olav Pedersen - *Petroleum Geo-Services ASA - President & CEO*

Yes, that is a good question. We normally see, as you see from our historic numbers, that the order book increases quite a bit when you come to the first quarter, which we have seen again this year. And then you're going to eat into the North Sea season and the order book goes down a little bit. The question is, I don't know. We will eat into our order book quite a bit. We will have 4 vessels in contract work, and we have the other 4 in prefunded MultiClient work. So obviously quite a bit of the order book will be eaten into in the second quarter. At the same time, we are filling up. So where that will end up when we come to the end of the second quarter, I don't know. I don't expect a material increase, I could say, at this stage.

Glenn Lodden - *Nordea Markets, Research Division - Analyst*

And just a second question. You mentioned the fleet to be -- or the industry, rather, to be fully utilized during the summer season. How do you view the prospect of reactivating cold stacked? That's all.

Rune Olav Pedersen - *Petroleum Geo-Services ASA - President & CEO*

Yes. We have no intention to doing that during '19. That's clear. And we currently have in our base -- or our costing is based on operating 8 vessels during the second and third quarter, and 7 vessels in the fourth quarter and then the first quarter next year. What we will do with respect to reactivation in 2020 and 2021 is too early to say. But I think it's more likely that we will -- if we reactivate, that, that will happen in '21 than in '20. But that is a decision still not made.

Bård Stenberg - *Petroleum Geo-Services ASA - Senior VP of IR & Communication*

Any further questions from other people in the -- yes?

Terje Fatnes - *SEB, Research Division - Analyst*

Terje Fatnes from SEB. Can you say how much you paid for the Victory vessel?

Rune Olav Pedersen - *Petroleum Geo-Services ASA - President & CEO*

No, I can't. We have agreed with the Japanese not to disclose that purchase price at this time. But what you can see is that we have kept our CapEx guidance for the year intact, and that obviously includes this transaction as well. And we can disclose it later.

Terje Fatnes - *SEB, Research Division - Analyst*

And what was the rationale for buying that and using that as a source vessel when you have plenty of vessels available already for that one?



APRIL 25, 2019 / 7:00AM, PGS.OL - Q1 2019 Petroleum Geo Services ASA Earnings Call (Morning)

Rune Olav Pedersen - *Petroleum Geo-Services ASA - President & CEO*

It's a combination of making sure that the all-Japanese transaction goes as planned and the fact that, that vessel is very well-maintained and that we found that at the purchase price, which we're not disclosing, this is an acceptable transaction to us given what we get and what we pay.

Terje Fatnes - *SEB, Research Division - Analyst*

And final question is on the vessel bookings you have for the fourth quarter. Are some of those that are contract work or is that mostly MultiClient projects? And if you have contract in the backlog, what is the rate...

Rune Olav Pedersen - *Petroleum Geo-Services ASA - President & CEO*

I believe all of that is contract work. This is contract work. I think all is contract work, but it may not be -- but -- and the pricing there is similar to the pricing for the rest of the year. This -- the booking there is mainly large contracts extending into -- it's both contract and MultiClient, but it's contracts extending into the fourth quarter. But yes, in those 8 vessel months, there are contract work.

Bård Stenberg - *Petroleum Geo-Services ASA - Senior VP of IR & Communication*

There's no further questions on the audience in Oslo. We can go to the conference call. Operator, can you help us with the questions from the people on the conference call?

Operator

(Operator Instructions) We will now take our first question.

John A. Schj. Olaisen - *ABG Sundal Collier Holding ASA, Research Division - Co-head of Global Research*

This is John Olaisen from ABG Sundal Collier in Oslo. A couple of questions. Firstly, on Q4, just a small detail. Are you still planning for 7 vessels in Q4? Or is there any possibility that you might have 8 vessels in Q4?

Rune Olav Pedersen - *Petroleum Geo-Services ASA - President & CEO*

The costing which -- the costing guidance is still based on a 7-vessel operation in Q4. Whether we will run 7 -- 6, 7 or 8 is still an operational decision depending on what kind of utilization we can achieve. And I will say, at this stage, yes, there is still a possibility that we will run 8 vessels in Q4.

John A. Schj. Olaisen - *ABG Sundal Collier Holding ASA, Research Division - Co-head of Global Research*

And a question to the seismic volume chart where you say that you expect 10% to 15% increase in the volume shot -- seismic shot in 2019. When I look at all the MultiClient investments guidance from all the seismic companies in the world, it looks like global MultiClient investments are going to be up 10% to 20% this year. So I just wonder, is there volume increase in a contract work as well? Or is it all -- is all the volume increase we're seeing at the moment increase MultiClient investments?

Rune Olav Pedersen - *Petroleum Geo-Services ASA - President & CEO*

Our calculations are increases in both. I think I don't have the details there, whether it's similar in both or whether it's more or less in the others. But the increase we see is in both contracts and MultiClient, yes.

APRIL 25, 2019 / 7:00AM, PGS.OL - Q1 2019 Petroleum Geo Services ASA Earnings Call (Morning)

John A. Schj. Olaisen - *ABG Sundal Collier Holding ASA, Research Division - Co-head of Global Research*

And could you give us some indication about the leads for next winter? What -- how do you see it? When you say you're still open with 6 to 8 vessels or 7 is base plan and maybe 8, is there other lot of leads up now -- already now for Q4 and Q1, the upcoming winter?

Rune Olav Pedersen - *Petroleum Geo-Services ASA - President & CEO*

What we can say is that the leads basket for Q4, Q1 this year, it's quite a bit stronger than what we saw at the same time last year. And if you look at the leads basket, it looks like it's the same. I mean you just kind of roll it back here and see that they're sitting at the same level. So we looked into that a little bit. There is more than a double of the amount of projects in the leads basket this year versus what we had in the same time last year. And last year, actually, was impacted by a few very large projects, which obviously then run beyond the first and fourth quarter and then they inflated the leads basket there. While the leads basket for the fourth quarter and first quarter this year is more projects -- a larger bucket of projects all being executed in that time frame. So it's a more healthy leads basket we see currently than what we did last year because we have had -- yes, we had looked at that same question as you just asked before when we saw the same graph. So it's looking better this year. That's the word.

John A. Schj. Olaisen - *ABG Sundal Collier Holding ASA, Research Division - Co-head of Global Research*

My final question. On Slide 16, you repeat that you likely will refinance in 2019. And you're right that the timing and the structure depends on market conditions/cost. I presume you mean the financial market conditions.

Gottfred Langseth - *Petroleum Geo-Services ASA - CFO & Executive VP*

Yes, that is correct.

John A. Schj. Olaisen - *ABG Sundal Collier Holding ASA, Research Division - Co-head of Global Research*

And can it get any better than it looks right now? You don't have to answer that. But maybe, could you -- do you still expect to be able to refinance without raising equity? Yes, we always get that question as we all -- we have to -- you still do. So that's confirmation that you don't expect to raise equity.

Gottfred Langseth - *Petroleum Geo-Services ASA - CFO & Executive VP*

But anyway, the financial markets have improved quite a bit since, in a way, last year and then this year. So in a way, we will proactively assess that and, in a way, we aim to get this done in 2019.

Operator

(Operator Instructions) We will now take our next question from Sahar Islam from Goldman Sachs.

Sahar Islam - *Goldman Sachs Group Inc., Research Division - Analyst*

So firstly, on the contract recovery, could you give us a little bit more color on the geographies driving that? And then also the types of clients? Is this still being driven by the IOCs? Or are we seeing the independents come back?

APRIL 25, 2019 / 7:00AM, PGS.OL - Q1 2019 Petroleum Geo Services ASA Earnings Call (Morning)

Rune Olav Pedersen - *Petroleum Geo-Services ASA - President & CEO*

It is -- I would say, it's driven by mainly Africa, South America, less -- and also Forties in the North Sea, less so by the Asia Pacific region where it's still a weak region than the other regions, so it's geographically spread, the other regions are the ones driving the pricing increase. I would say it's still being driven by the larger -- the super majors in the next year rather than the small companies. They have not yet returned to the contract market, I would say.

Sahar Islam - *Goldman Sachs Group Inc., Research Division - Analyst*

Great. And then just on the competitive landscape in that contract market. Is the price improvement being driven by some of the changes you're seeing in terms of your peers' inter-business strategy? So is there less competition at the moment as peers exit some of those vessels?

Rune Olav Pedersen - *Petroleum Geo-Services ASA - President & CEO*

It's -- I would say, it's difficult to say. With this, CGG still have their vessels. And the WesternGeco vessels have been transferred to share water, and some of them have been reactivated. So I would probably say it's more driven by demand increase than it is a, let's say, an increased restrictions or that the supply side has gone down a lot. I think that's correct to say. So it's more demand than it is supply-driven.

Operator

We will now take our next question from [John].

Unidentified Analyst

I had a quick question on MultiClient versus contract sales to clients. Do you get a sense from clients that there is an increasing acceptance of MultiClient data as opposed to contract?

Rune Olav Pedersen - *Petroleum Geo-Services ASA - President & CEO*

I would say almost the opposite. We are currently seeing -- and that may be just what we're seeing right now. It may not be a trend. So I'll try to underscore that. But we are currently seeing that the super majors are at least seem to be more inclined to shoot areas as contract rather than MultiClient. So currently, we are seeing that area as we saw, let's say, 2 years ago, where they were happy to do with MultiClient, they would now prefer doing it in contract work, which I think is a reflection of just a bigger budget. And therefore, you can choose your areas. Okay, here I want to use the contract model, and here I want to use the MultiClient model, whereas some years back the budgets were so depressed that you just wanted cheaper seismic.

So we're seeing a shift back to contract rather, I would say, right now. And then we will, of course, monitor this going forward. We expect that most companies in the world will utilize both business models and use it as they find appropriate in the area we're talking about.

Unidentified Analyst

All right. Just a quick follow-up on that. On sort of this shift you're seeing, has that been factored into sort of your plan for over 50% MultiClient allocation for this year? And how will that change in the next coming years?



APRIL 25, 2019 / 7:00AM, PGS.OL - Q1 2019 Petroleum Geo Services ASA Earnings Call (Morning)

Rune Olav Pedersen - *Petroleum Geo-Services ASA - President & CEO*

Yes. We shot, what was it, I think 67% MultiClient last year. And this year, we're closer to 50-50. We're still above or more than 50% MultiClient but closer to 50-50. So we're already there, in a way, you see a shift to more contract this year versus last year. I think we -- the '19 level of 50-50 or 60-40 in the favor of MultiClient is a level we can expect also going forward in the next years.

Operator

It appears there are no further questions at this time.

Bård Stenberg - *Petroleum Geo-Services ASA - Senior VP of IR & Communication*

Okay. Are there any further questions from the audience in Oslo? If not, that concludes this presentation.

I would also remind you that we have scheduled a conference call later today at 3:00 p.m. Central European Time. That's also an opportunity to ask questions to management.

So with that, thank you all for coming, and have a nice day.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2019, Thomson Reuters. All Rights Reserved.