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PGS.OL - Q2 2018 Petroleum Geo Services ASA Earnings Call (Morning)

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PRESENTATION

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

Okay. Good morning, and welcome to this presentation of PGS Q2 and First Half 2018 Results. My name is Bård Stenberg, Senior Vice President of Investor Relations and Communications. Today's presentation is followed by a conference call, and participants 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 have this presentation followed by a conference call, I kindly ask the audience in Oslo to use microphones provided when asking questions. There is no fire alarms planned, so if the alarm is sounded, please evacuate immediately, exit doors are in back of the room. I also kindly ask you to draw your attention to the cautionary statement showing on the screen and also available in today's presentation material 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 the word to you, Rune Olav.

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

Thank you, Bård, and good morning, everyone. In the second quarter of 2018, we reported segment revenues of USD 199.4 million and an EBITDA of USD 136 million. This is mainly from a solid MultiClient performance. And now we have the right slide as well.

The total segment MultiClient revenues were USD 162.7 million, comprising of late sales of \$68.7 million, which is a confirmation that the strong trend we have seen on -- in the late sales in the previous quarters continues into this quarter. Prefunding revenues of USD 94 million and a prefunding level of 116%, which is also strong.

It's an important milestone for this company to report its first positive EBIT in 2.5 years. It's an important step for us as we are turning this company to becoming a profitable company over time. So we are glad to see that we can report positive EBIT in this quarter.



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The marine contract market is still challenging, but it is improving. I will get back to why we say this about the market at this stage under the market update. But of course, the fact that we show quite strong, both on the leads and bids curves, which we give every quarter, it's the highest we've seen in 3 years, is one of the key factors for being a bit more bullish on the marine contract market today.

All in all, we are on track to be cash flow positive after debt service in 2018, which, of course, is our main financial KPI for the year.

On the financial summary, I will point to a few numbers. Just to repeat the EBITDA, \$136 million, which is the highest EBITDA we have recorded since the fourth quarter of 2014, more than 3 years. And also, of course, again, you can see the positive EBIT versus all the other negative EBITs in the previous quarters you can see on the slide.

The order book was USD 187 million by the end of the second quarter 2018. Vessel bookings for the next 3 quarters of 40 vessel months. Q2 -- Q3 is fully booked, and the reason that's 23 months and not 24 there is that Ramform Titan is currently idle, waiting for permits, and will start up in early August. So we are fully sold out for Q3.

Q4, 12 vessel months; and Q1 '19, 5 vessel months. It is important to note, and particularly important this time, that the booking is as of yesterday, while the order book was as of the end of the quarter. It is also so that what goes into the order book has a very formalistic definition, it needs to be signed or awarded formally, while the booking is when we know we're going to do the job, and we are currently in the phase of formalizing and signing up several large jobs. Some of them are included in the vessel booking, but obviously are not included in the order book. So this time, there is no real match between the order book number and the numbers booked, which is an important distinction to make in this quarter in particular.

With that booking, we are confident and expect to achieve acceptable utilization in the fourth quarter. And I also repeat from earlier that we will focus on utilization and profitability for our core fleet of 6 vessels before we consider introducing a seventh or an eighth vessel into the market in the fourth quarter or the first quarter of '19.

And with those introductory comments, I give the word to you, Gottfred.

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

Thank you. Good morning, everyone. I will start with the key financial figures. The lower part of this table, which is a little bit busy, but the lower part we have included the specific segment reporting numbers, which are the ones that are based on our management reporting and the percentage of completion in line with earlier years.

Segment revenues, \$199.4 million, that's a 17% decrease from Q2 '17. Q2 last year was particularly high on revenues. The second quarter of last year captured a large share of the full year late sales, unusually large. And we also operated the highest number of vessels. We had 9 vessels in operation in Q2 '17, more than what we operated Q2 this year. The segment EBITDA of \$136 million is a 21% increase over Q2 last year.

Segment EBIT, as pointed to already, turned to \$13.6 million positive versus a loss in second quarter last year.

On the reported or as-reported numbers in the first part of the table, a comment on revenues and EBIT, which are the ones that deviate from the segment numbers. They are significantly higher than the segment numbers.

So revenues in the second quarter is, under IFRS 15, is \$40 million, approximately, higher than the segment numbers. And year-to-date, it is \$44 million, approximately, higher. This difference is only related to timing and depends upon when the final data is delivered on MultiClient prefunding projects. It will vary, the difference from quarter-to-quarter. It will (inaudible) even out over time. And as of today, we expect the IFRS 15 as-reported numbers to be lower than the segment numbers in the second half, just to caution everyone about that.



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A couple of other things to comment in the table. Income tax expense, we have \$14.5 million of income tax expense so far this year, which is higher than last year. And this is primarily due to improved or increased volumes and profitability in Brazil. Cash investments in the MultiClient library, significantly up compared to Q2 last year, almost a doubling from second quarter last year. CapEx, relatively low, \$8.3 million in the quarter.

Turning to the operational highlights. Rune has discussed and pointed to most of the MultiClient numbers already. We used most of our acquisition capacity for MultiClient in the quarter, thus increasing the capitalized cash investments to \$81.3 million. We have strong prefunding on those investments, 116% on aggregate. And as the illustration to the top right illustrates with the purple line, we continue to deliver prefunding in the higher end of our target range, which we have more or less consistency -- consistently done for the whole period shown here.

When it comes to the contract revenues, these were quite low in the quarter, \$29.7 million. We allocated very little of our acquisition capacity to contract, 12% of the nominal capacity was used for contract acquisition.

If we look at the MultiClient revenues by region. You see from the illustration that Europe accounts for a substantial portion of the total. And with respect to the prefunding revenues, these were well distributed between our main regions, while late sales were dominant -- dominated by sales from our European library.

Just a few comments on the key operational segment numbers. Moving down to the line, Imaging, \$6.7 million of external Imaging revenues, same as we had in Q1, but at lower levels than what we've had over the last couple of years. This is obviously related to our downsizing of capacity implemented end last year, but also, and equally much, that we are using a larger share of our Imaging resources to process our MultiClient projects.

Moving now to MultiClient amortization, which was \$104.6 million in the quarter, that's an amortization rate, on aggregate, of 64%. Last one that I wanted to comment here is the depreciation expense, which is low in the quarter, \$17.8 million. Two reasons for that, the most important one is that since we use most of our vessel capacity for MultiClient, depreciation related to that capacity is capitalized to the library and do not therefore show up in the P&L. Second reason is that, even before capitalizing depreciation, the gross depreciation amount is lower than last year since we have kept our investment level low for some time and we're extending in a way the useful life of equipment, including streamers.

Vessel utilization, 74% in active time in the second quarter. This is based on 8 vessel nominal capacity. The low utilization is primarily due to relocation of vessels in the second quarter. We will have better utilization in the third quarter, particularly with less steaming.

For the full year 2018, we will do more MultiClient than what we guided on a quarter back, and we now expect to use approximately 65% of our full year active capacity for MultiClient.

There are no significant changes to our cash cost expectation for the year, and in fact, this slide is not changed from a quarter back. Some of the variables impacting this fluctuating EBIT, but on aggregate, we expect to end the full year on \$600 million as earlier.

If we look at the quarterly cash cost development, second quarter cash costs are sequentially down, in accordance with our plan, as our cost reductions have started to take full effect and also because we had somewhat low production in the quarter, which benefits to some extent the cash costs in the quarter. We expect a somewhat higher cost -- cash cost in the third quarter, primarily since we will have more production on our vessels.

Our full year cash cost estimate of \$600 million is based on taking vessel capacity down to 6 vessels from early Q4.

Cash flows. We had cash from operating activities of \$121.7 million in the second quarter. Quite a bit up from Q2 '17, primarily since we had higher earnings and somewhat better working capital development.

We are, during this year, making payments on the severance accruals and other restructuring provisions we made end of last year. And in this quarter, the cash from operations have been charged with \$12.5 million of such restructuring payments. Year-to-date, the amount is \$26.8 million.



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On the balance sheet, I'll do that quickly. Liquidity reserve, end of quarter, \$224 million. That's down a little bit more than \$30 million from start of the year, which there are many variables there, but it corresponds fairly closely to, in a way, the payment of restructuring costs that have been done so far this year. And if we adjust for that, our cash flow -- net cash flow after debt service is close to 0, year-to-date.

Looking at maintenance covenants in the revolving credit facility. We have good headroom. The ratio is reduced to 2.83:1, significantly down from that 4.39 we had a year back, and it is maybe needless to say that we expect to be in compliance going forward.

There's not much change in the quarter to our debt and drawing facilities. We have made \$13 million of scheduled repayments on long-term debt, primarily relating to the export credit financing facilities. And we also reduced the drawing on the revolving facility by \$5 million in the second quarter.

I will leave it with that and hand the podium back to you, Rune.

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

Thank you. On the streamer operations, you will see that we have 2 vessels in Canada, currently, 2 vessels in Europe. Apollo continues its many MultiClient project in Indonesia. Ramform Tethys is operating in Brazil, and Sovereign in Angola. The Ramform Titan, as I alluded to, is waiting for permits and sitting in Las Palmas, and we expect her to start up in West Africa early August.

On the marine seismic market outlook. We repeat that higher oil price, improved cash flow among oil companies and the low oil and gas discovery rate are expected to benefit our market fundamentals. And also, that the MultiClient sales trends continues from the previous 2 quarters into this quarter, and we believe that MultiClient has been in an improving (inaudible) -- MultiClient segment has been an improving segment for some quarters now.

When it comes to the marine contract market, we see clear signs of improvement. As we mentioned, a high number of leads and bids opportunities, which we see, that correlates with what we hear from clients in our client communication and dialogue. We think that people will start spending more on seismic and that there are current plans for it. We have realized higher pricing in the first half of 2018 than we realized in the first half of 2017, which is another sign for an improving market. And we expect this trend to continue going forward. This in spite of the rather low order book, which I have comment upon. And obviously, it is still early days, so it's not easy to call the strength of the recovery we are in, but we believe we are in a recovery also in the marine contract market.

Here we see the value of sales leads and active tenders, which is at its highest level for more than 3 years. The recent increase is mainly driven by new opportunities in West Africa. And we've also seen some bids for the 2019 Europe season come out already, which is clearly much earlier than what we've seen in previous years and another indication, at least, that we are in an improving market.

The volume of acquired marine 3D seismic, we estimate that to be slightly higher in 2018 than in 2017. And obviously, that will be -- will result in less idle time for the global fleet than what we saw in 2017.

Not much change to this slide on marine seismic supply. The average streamer capacity in 2018 is still close to 50% down from 2013. Flexible winter capacity causes this supply swing so [a wave] we see towards the end there.

Schlumberger's exit of the seismic acquisition market has reduced supply in -- so far in 2018. They have stuck to their words. We have not seen them in any new tenders. We have not seen them in any new MultiClient acquisition, but they have done work which they were already awarded before this announcement was made by Schlumberger. So obviously, this impacts the market balance in 2018 positively. We expect, obviously, these vessels or some of them to come back longer term. And the low industry maintenance CapEx is causing the global streamer pool to shrink over time, so unless we see investments in new streamers fairly soon, there will be further tightness.



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On to guidance. As Gottfred have already explained, we keep our guidance on the group cash cost -- gross cash cost of approximately \$600 million. We increase our guidance on the MultiClient cash investments to approximately \$300 million and using approximately 65% of the active 3D capacity in the MultiClient segment. CapEx of approximately \$50 million is unchanged.

So in conclusion, we have high MultiClient activity with solid prefunding in the quarter. The good MultiClient late sales demonstrates a continuance of the strong trend from the previous 2 quarters. The marine contract market is still challenging, but it is improving. And it is very good to report the first positive EBIT in more than 2.5 years -- or in 2.5 years, I should say. And of course, the very tight cost control remains a very high priority for 2018 as the main KPI is to be cash flow positive after debt service, and we believe we are on track to achieving that.

And with that, I leave it to questions, Bård.

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

Yes, thank you, Rune. We can start from the audience here in Oslo. So...

QUESTIONS AND ANSWERS

Terje Fatnes - *SEB, Research Division - Analyst*

Terje Fatnes from SEB. On the market, can you elaborate a little bit on what kind of companies are you seeing the biggest change in terms of (inaudible) on seismic? Is it widespread? Or is it (inaudible) or smaller companies?

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

I guess, I should stand here. I think what we currently see coming into the -- into active tenders is mainly the bigger independent companies, overall. I mean, the super majors of the world increasing their activity. However, what we see in the MultiClient space, it's a more widespread distribution of rather a trend of more companies spending than a few companies spending more. So there's a little bit of a difference, but new seismic is still, I think, what we have at least in-house, is still dominated by the larger oil companies of the world, so we haven't really seen what we've seen in the MultiClient market trend [over this] contract market just yet.

Terje Fatnes - *SEB, Research Division - Analyst*

And secondly, on rates, you mentioned that you have seen higher rates in the first half this year compared to last year. Possible to quantify how much higher?

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

No. We don't do that, but I mean, it's -- or should I say not insignificant. It's a meaningful higher number for us.

Terje Fatnes - *SEB, Research Division - Analyst*

At least double digit?



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

Yes, I don't want to comment on that.

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

Any more questions from the audience in Oslo? If not, we'll go to the conference call. Operator, can you help us with the Q&A session for the people on the conference call?

Operator

(Operator Instructions) We'll now take our first question from Christopher Møllerløyken of Carnegie.

Christopher Møllerløyken - *Carnegie Investment Bank AB, Research Division - Research Analyst*

In terms of fourth quarter vessels, is it fair to assume that your base case is to reduce the current fleet from 8 to 6? And what would cause you to change that and keep your vessel number unchanged today?

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

Yes, it's -- the current plan is still to reduce the fleet from 8 to 6 vessels in the fourth quarter. And we will, as I said, focus on getting full utilization at acceptable rates for those 6 before we consider introducing the 7 and 8. So it is higher demand or more projects, or I should rather say, if we get a larger -- or a fairly large share of the current tenders out there and the MultiClient projects we are planning at acceptable rates, we may introduce a seventh or an eighth vessel into the fourth quarter and first quarter.

Christopher Møllerløyken - *Carnegie Investment Bank AB, Research Division - Research Analyst*

You did say that, of course, the realized prices in first half have been higher than last year. But could you say anything regarding the pricing you observe in the current market for work going forward? Does an increased number of leads and tenders cause that you see that prices are picking up also for work being tendered going forward?

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

We are going to be very careful in communicating our bidding strategy and what we see on pricing. So I think I'll -- I will just repeat what I said, I expect this trend of higher prices to continue going forward.

Operator

Our next question is from John Olaisen of ABG.

John A. Schj. Olaisen - *ABG Sundal Collier Holding ASA, Research Division - Co-Head of Global Research & Lead Analyst*

I was a little bit surprised that late sales in Brazil went up higher than they were in the quarter, given licensing rounds, et cetera. Could you comment on that and maybe tell us a little bit when we should expect strong sales from Brazilian given (inaudible), please?



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

Yes. Should I say, I mean, it's -- there are, as you know, about 3 licensing rounds a year in Brazil, and sometimes these award hit our library in terms of overlap and in terms of who has bought and who has bought a full license and who has bought a multiple license, so with uplift. That varies from quarter-to-quarter or from license round to license round, and what you see now is what we get. So this will fluctuate. I don't have any indications when we can see them moving up or down again going forward, unfortunately. But of course, it is important for us, in general, that Brazil maintains its policy of doing 3 licensing rounds a year and doing them on the date they announce, that is the most important thing for us.

John A. Schj. Olaisen - *ABG Sundal Collier Holding ASA, Research Division - Co-Head of Global Research & Lead Analyst*

The second question is regarding the debt maturity. Could you give us an indication of when we should expect the refinancing of the 2020 bonds?

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

Well, we are, as I said earlier, basically preparing ourselves for refinancing. It could be either refinancing the bonds or more of a more comprehensive refinancing, and that could happen very soon or we could delay it further out in the window. As you know, our policy is to refinance this approximately 1.5 years before maturity, and we will continue to observe that. But you shouldn't be surprised to see us being earlier, especially with the bonds, that depends on market [window] (inaudible).

Operator

(Operator Instructions) We'll take our next question from Teodor Nilsen of SB1 Markets.

Teodor Sveen-Nilsen - *Sparebank 1 Markets AS, Research Division - Analyst*

First, on your updated industry CapEx guiding and cash cost guiding. You're increasing the industry CapEx guiding by \$25 million, while you keep the total cash cost guiding unchanged. Should we interpret that as you lower your guiding for SG&A and comps by \$25 million?

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

We actually discussed this already since we read your first report. So our total gross cash cost is the same. So the change in MultiClient cash investment relates to allocating the capacity and related costs differently between MultiClient and contracts, so it's a reallocation. Our total cost is the same, \$25 million more will be capitalized and therefore not show up as a cash cost in the P&L, which is, I think, what you referred to as [a term of] SG&A and cost of sales.

Teodor Sveen-Nilsen - *Sparebank 1 Markets AS, Research Division - Analyst*

Okay, that's clear. And then also a bit on the 2 (inaudible). If you just use your contract allocation, also contract revenue for second quarter, it looks like you have a daily rate of approximately \$280,000 per 12 streamer equivalent invested, and that's up like 70% year-over-year. I guess, there's some quarterly specific effects into that higher day rate number. Is it possible to give some more details around that?

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

I think as I was -- I'm very cautious on pricing as you can hear, and I understand your questions on that, but it's -- I think we'll stay with being cautious in saying that we experienced a not insignificant increase in pricing for the first half versus the first half last year. I think your numbers, they seem a bit higher, to put it that way, just to give you some guidance on what I mean by not insignificant. They do seem a bit high.



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Teodor Sveen-Nilsen - Sparebank 1 Markets AS, Research Division - Analyst

Okay. Understood. And then one final question for me. You said that you expect investments in streamer pretty soon. Will that mean by end of 2018?

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

Sorry, you're referring to refinancing?

Teodor Sveen-Nilsen - Sparebank 1 Markets AS, Research Division - Analyst

No. Investments in streamer capacity. And you said that you expected you to make some investments pretty soon. So should we interpret that as being end 2018?

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

No. What I was referring to was industry as such and not PGS-specific. So we still, I can repeat, we still have streamer capacity for 8 vessels through 2020. And we will, of course, then need to start investing in streamers, approximately year before that, to be able to continue to run with 8 vessels going into '21, et cetera.

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

I will not make a habit of correcting anything. So there's streamer capacity available through 2019 into 2020 for 8 vessels. And the statement on streamers was relating to if in a way, absent any new investment in streamers from the industry, that will start to take an impact on the investments the industry can operate. If this was wrong, you have the right to respond.

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

That's correct. That was right.

Operator

Our next question is from Sahar Islam of UBS.

Sahar Islam - UBS Investment Bank, Research Division - Analyst

I appreciate you can't give us very much detail on pricing and contract, but can you comment on the supply dynamics and particularly what you're seeing in terms of the Schlumberger exit, how that might impact the rest of the year or next year in terms of pricing and supply?

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

Yes. I can comment a little bit on that as we have not heard anything yet from what will happen to these vessels. We basically see them as out of the market for the rest of the year, at least. And I think, also, we probably need to hear something fairly soon on what they intend to do for them to have any meaningful effect in the first quarter of '19. But yes, that is our current estimation. I mean, it takes a little bit of time to announce a deal, close a deal and then start bidding for work and then winning it and getting into the market. So that is why I am communicating the way I am.



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Sahar Islam - UBS Investment Bank, Research Division - Analyst

And if we just think in broader terms on pricing, do you think a reduction in that active supply, not just from Schlumberger, but just the actions the whole industry has taken over the last couple of years will result in year-on-year price increases as we move through the year? I know you don't want to give numbers, but is that how we should think about it?

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

Yes, yes, that's what I'm trying to communicate, what I'm saying. The market is improving and that prices have been up and that we continue that going forward, so yes.

Sahar Islam - UBS Investment Bank, Research Division - Analyst

And then just very quickly on the licensing rounds, which you mentioned before. Are there any rounds, in particular, over the near term that we should think of as you being well positioned for? And does the delay of Mexico have any impact? I think they said this morning, they're going to be delaying.

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

Yes. No, we -- I'll start with that. We don't have a very large library in Mexico, and Mexico doesn't represent any large part of our MultiClient revenue, so that is not a significant or very important for us at all. And when it comes to licensing rounds, I don't think there is any one particular licensing round we have singled out, which is very important. As you know, we have a very geographically diverse library. So the fact that licensing rounds are picking up and there are licensing -- regular licensing [around] many places in the world is what gives us higher revenues and not individual single licensing rounds.

Sahar Islam - UBS Investment Bank, Research Division - Analyst

Are there any lumpy deferred payments that need to come through from earlier awards from licensing rounds that we should be aware of for Q3 and Q4?

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

Not something I would like to comment upon, I think. There are obviously, I mean, licensing rounds all the time. And we are looking at these things, and then we have smaller and larger things we are looking at which will come through. But nothing which is -- sticks out for us to necessitate for us to comment on, I think.

Operator

Our next question is from Morten Nystrøm of Nordea.

Morten Nystrøm - Nordea Markets, Research Division - Senior Analyst of Oil Services & Sector Coordinator

A lot of the questions have already been answered. But firstly, do you see any changes in peers behaving -- behavior with respect to pricing of contract work?



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

Not sure I think there is enough data yet to see any peer change. I think I'll have to be cautious there, and I don't think I can be strong enough to say that we see peers changing their pricing behavior. I think that's not correct yet.

Morten Nystrøm - *Nordea Markets, Research Division - Senior Analyst of Oil Services & Sector Coordinator*

Okay. And the second question is, and you obviously have already answered this, but previously, you and your peers have said that it's relatively challenging to get prefunding, given that you now are increasing your MultiClient investment. Not much, but still, absolute level is considerably above 2017 level. Has this now changed? Or are there pockets in the MultiClient market you are able to tap into which peers don't have access to? Or if you could elaborate around this, that would be helpful.

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

I think it's -- that is on a similar trend, I would say, as the contract market. There are more -- gradually more opportunities also for prefunding and shooting new seismic with prefunding support. So it's still challenging, but it is getting better, and the opportunity space is opening up. Are we accessing market others aren't, to a little bit -- to some extent, I guess, we are in a market or 2 where there are limited competition, because it's difficult to get in, and when you're in, you're in. But whether that is typical for us or whether others have similar markets, I will be a bit cautious. But there is a little bit of that effect going on. But I think the more important thing is the trend of more leads, which is then slightly easier to land.

Operator

We have another question from Lillian Starke of Morgan Stanley.

Lillian Starke - *Morgan Stanley, Research Division - Research Associate*

I do have a couple of questions. The first one is if you could share a little bit of color on the pricing with regards to MultiClient and what you're seeing there. And related to this, if you cannot share as much color on pricing, maybe if you could shed a bit of light on what's the cost per square kilometer that you have maybe seen during the downturn and how that compares to where you were acquiring prior to the downturn? And then my second question is with regards to the restructuring program and the cost reduction. How much of that -- of what we've seen so far is -- has been executed in terms of the progress that you've made is -- I mean, the progress had been 50%, 60%? And how much can we expect for the second half?

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

Yes, I can start with the last one first. I think it's fair to say that we have probably executed more than 90% of the cost program already. There are still some small element, as you understand, limited element to come out. So we are approaching the level, the run-rate level we should be on. With regard to the others, the pricing on MultiClient is obviously -- it's obviously difficult to comment on. There is a much more -- you sell from your library and one set of library has a different pricing per square than another library, things like that, so it's difficult to comment on it. But in general, it's clear that higher demand for our library services leads to higher pricing. It's -- this is very much a supply/demand market and where our sales people all the time has a finger on the pulse, and if they feel that a particular library is attractive, the prices will go up. I mean, it's very -- it fluctuates quite a bit. So in an improving market, we will realize, on average, higher pricing on the library than we will in a lower market. But other than that, it's difficult to say. And also, of course, the same goes to the square kilometer price of acquired seismic as it varies significantly from region to region because of the cost of operating in some countries are materially larger than the cost of operating in other countries. And also, it varies significantly between the different configurations we put into the water. Whether we have far streamer separation or narrow streamer separation. So it's, other than communicating to you that the gross cash cost is going down and that obviously also impacts the square at the end,



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the cost per square, it's difficult to comment. Not because I don't want to, but it's just difficult to comment on it more than that. Gottfred, you have anything to add?

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

No.

Operator

We will now take our next question from Monika Rajoria of Societe Generale.

Monika Rajoria - *Societe Generale Cross Asset Research - Equity Analyst*

I have -- I only have one question on the 4D projects within the contract seismic space. Would you be able to quantify for that the number of jobs that were finished in the first half and what kind of pipeline do you have for the rest of the year? And what kind of competition do you see in this subsegment?

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

Yes. I can put some color to that. We -- the number of jobs, I cannot remember that we have quantified, but I can say that both in the first half and in the second half, 4D will be -- will take a large part of what we do in the marine contract space. And an indication of around 50% of what we do in the marine contract space this year is likely to be 4D, I think is an indication, a fairly good indication, both for the first half and for the second half. So 4Ds are a significant part of what we do in the marine contract space. In terms of competition, it is clear that we are taking a very large share of all 4D work out there in 2018. There are always some sort of competition, but the combination of the Ramform and the GeoStreamer, in particular, in the 4D segment is very strong. And here, we have a superior position, which shows up both in margins and in market share. And I think that's probably as far as I can go on that.

Operator

Our next question is from Christopher Møllerløgken of Carnegie.

Christopher Møllerløgken - *Carnegie Investment Bank AB, Research Division - Research Analyst*

Just a short follow-up. I know the absolute numbers are relatively small, but on the marine contract revenues beat for second quarter, could you comment a bit on if you saw any -- that the revenues were impacted by operating in high-cost regions so that you had strong productivity in the second quarter? Or was it a pure pricing effect?

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

Part of it is clearly that we have done 40 jobs in high-cost regions during the second quarter. So a part of the absolute, let's say, daily rate is probably impacted by that. But having said that, obviously, we get -- also get better margins in this segment.

Operator

(Operator Instructions) It appears there are no further questions at this time.



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

Okay. Thank you, operator. Any further questions from the audience here in Oslo? If none, that concludes this presentation. I would like to remind you of the conference call scheduled later this day at 3 p.m. Central European time.

So thank you all for participating on the conference call, and thank you all for coming to us in Lilleakerveien, in Oslo, and have a nice day.

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