



BUY

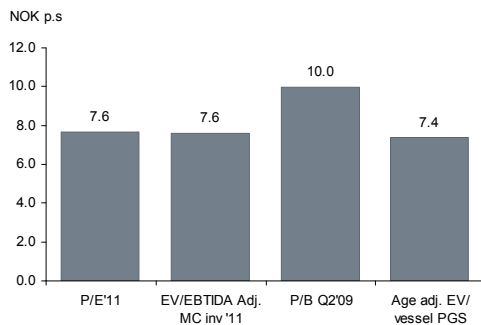
# Polarcus

Norway, Oil &amp; Gas Equipment &amp; Services

PLCS.OL (REUTERS) - - PLCS NO (BLOOMBERG)

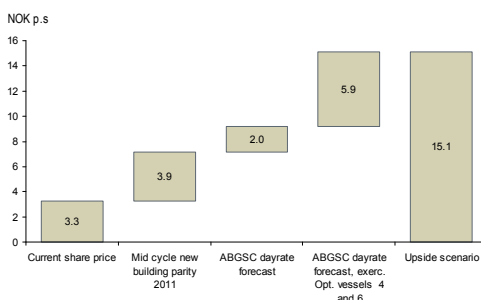
Share price: USD 0.6  
Target price: USD 1.3Market Cap (m): USD 154m  
Daily traded shares, -3m (k): 2,437

## Implied value per share peergroup comparison



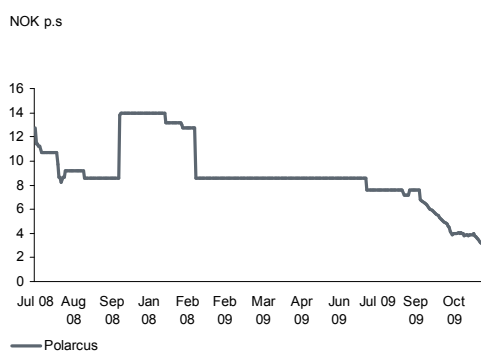
Source: ABG Sundal Collier

## DCF valuation



Source: ABGSC

## Share price



Source: SIX

## Pole position

*We initiate coverage on Polarcus with a BUY recommendation and TP of USD 1.3 p.s. Polarcus' modern fleet should be uniquely positioned both to navigate through the current downturn and take advantage of a recovery in the seismic market. Polarcus trades at a ~30-70% discount to peers on both asset values and earnings multiples and in our view no other seismic stock is as leveraged to the upside should the cycle recover.*

### A fully financed high end fleet...

- Polarcus is the fastest growing seismic player in the industry aiming for a 7% share of high-end seismic by 2010. The company has four fully financed vessels scheduled for delivery from Q4'09 to Q3'10. All vessels are uniquely designed to target the high growth experienced in production seismic, as well as new frontier basins such as the Arctic. Furthermore, Polarcus' fleet has both low costs and high efficiency, as measured by km<sup>2</sup> hour in production and transit speed, and so can navigate through the current downturn better than competitors.

### ...with seismic market set for a recovery...

- We believe the seismic market remains one of the most appealing segments of the oil service industry, as it has the highest leverage to the recovery in the oil price coupled with the lowest supply growth. In our view, the seismic market will experience a soft landing in 2009, with utilization remaining healthy in 2010 and day rates recovering by 20% in 2011 and 2012.
- Options for two more vessels, with attractive delivery slots and prices, should make Polarcus a relative winner once the market recovers.

### ...trading at a 30-70% discount to peers

- Polarcus trades at a ~55% discount to PGS on our age adjusted EV/vessel calculations, a ~30-70% discount to peers on earnings multiples and a 55% discount to our mid cycle DCF valuation based on new building parity.
- Our DCF valuation based on our day rate forecast points to an upside potential of ~180%. If Polarcus under this scenario exercises the option for 2 additional vessels we estimate the stock could quadruple.

## Key Highlights

Year	Net sales USDm	EBITDA USDm	EBIT USDm	EBIT %	PTP USDm	EPS USD	EPS Chg %	CEPS USD	EV/S (x)	EBITDA (x)	EBIT (x)	P/E (x)	P/CEPS (x)
2005	0	0	0	N.a.	0	N.a.	0.0	N.a.	N.a.	N.a.	N.a.	N.a.	N.a.
2006	0	0	0	N.a.	0	N.a.	0.0	N.a.	N.a.	N.a.	N.a.	N.a.	N.a.
2007	0	0	0	N.a.	0	N.a.	0.0	N.a.	N.a.	N.a.	N.a.	N.a.	N.a.
2008	0	-11	-11	N.a.	-2	-0.02	N.a.	N.a.	N.a.	N.a.	N.a.	N.a.	N.a.
2009e	0	-19	-30	N.a.	-32	-0.13	584.6	N.a.	N.a.	Neg	Neg	Neg	Neg
2010e	176	35	3	1.6	-31	-0.11	-18.3	0.01	2.88	14.3	178.2	Neg	74.1
2011e	282	122	78	27	41	0.14	-233.1	0.30	1.57	3.6	5.7	4.2	2.0
Share price:	0.6	Total shrs (m):	263.2	P/BV %:	54	WACC %:	12.0	1M perf. %:	-27.0				
Mkt cap (m):	154	Fully dil shrs (m):	263.2	EV/Cap empl %:	73	RoE 06-11 %:	-8.3	3M perf. %:	0.0				
Net Debt (m):	213	Daily tr. shrs (k):	N.a.	Net gearing %:	68	ATROCE 06-11 %:	-4.7	12M perf. %:	0.0				
<b>Target price: USD 1.3</b>		<b>Risk:</b> Oil price, Exploration spending		<b>Methodology:</b> Peer group, DCF									

## Table of contents

Taking the pole position.....	3
A superior fleet .....	3
A management with a proven track record .....	3
Significant leverage to the upside .....	3
A potential acquisition candidate .....	3
...with red lights turning green.....	4
More than 120% upside to peer group multiples.....	4
...and if the cycle recovers the stock could quadruple.....	5
Investment summary.....	6
Market backdrop.....	9
Seismic market - early cyclical and attractive .....	11
Forecasts .....	14
Valuation .....	15
Significant upside if the cycle recovers .....	18
Risk factors .....	20
Conclusion.....	20
Appendix A - Company details.....	21
Appendix B - Supplier details.....	23
Appendix C- Seismic market demand balance .....	26
Appendix D- Forecast details .....	27

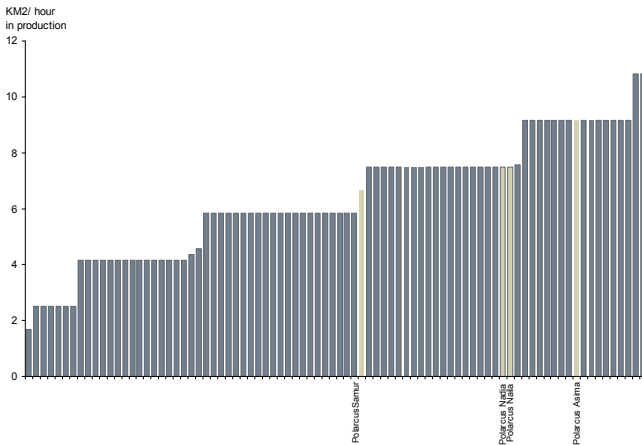
# Taking the pole position...

## A superior fleet

*Three high-end 12-streamer vessels and one 6-streamer vessel*

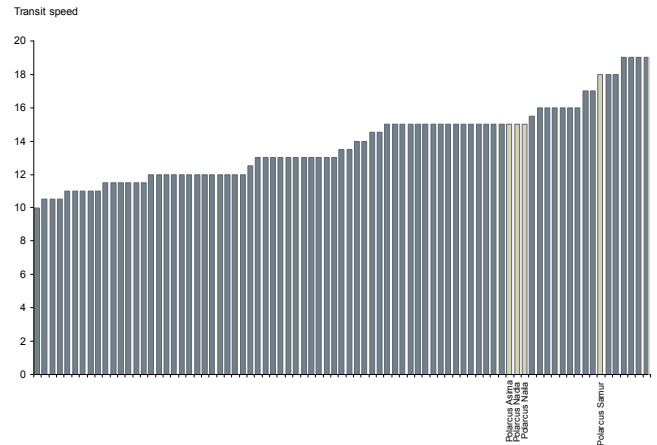
Polarcus has a fleet of three 12-streamer vessels and one 6-streamer vessel. All vessels have the advantage of the unique ULSTEIN X-BOW design, which is perfectly suited for future trends in seismic with its superior fuel efficiency, improved handling in rough sea, higher transit speed plus it is generally quieter and has lower vibration levels. Furthermore, two of these are the first purpose built seismic vessels to have Ice Class 1A, creating a competitive advantage towards the likely high growth areas yet to be explored, such as the Arctic.

### Average fleet production efficiency outnumbering ~80% of the worlds 3D vessels



(Source: ABGSC.)

### Average fleet transit speed outnumbering ~80% of the worlds 3D vessels



(Source: ABGSC.)

## A management with a proven track record

Polarcus' senior management has extensive industry knowledge, with backgrounds from both PGS and Western Geco. Furthermore, most of the key employees have experience from other successful start up companies such as Eastern Echo.

## Significant leverage to the upside

In addition to four vessels already on track for delivery by the end of Q3'10, Polarcus holds an option for an additional four vessels with the potential to increase its market share to more than 11% by the end of 2011. In our view Polarcus should become a significant force within the seismic industry.

## A potential acquisition candidate

There have been a number of acquisitions in the seismic industry in the last few years and all pure play seismic entrants have since being acquired by the existing players. Hence, given that Polarcus is the only new entrant in the industry with rapidly expanding capacity, we believe the company stands out as a potential acquisition candidate. The founders of Polarcus were also the brains behind Eastern Echo, which was eventually acquired by Western Geco.

*A potential acquisition candidate?*

## ...with red lights turning green

### Day rates have troughed and volumes are increasing

The seismic market has been under pressure over the last year as the oil companies have cut back on their E&P spending in light of the financial turmoil. However, this has had a beneficial effect on the previously feared supply growth, which we now believe is likely to end up flat compared with our YE'08 expectations of a supply growth of 20%. Putting it into perspective, seismic is now the segment within oil services with the lowest supply growth, despite being the most consolidated, and offers the highest leverage to a recovery in the oil price.

### Volumes lead pricing, day rates to recover in 2011

Based on our forecast of flat supply growth in 2010 and a 3% increase in E&P spending in the same period, we expect the seismic market to level out in 2010. The long-term drivers for the seismic market are the majors' falling reserve replacement ratios, the surging cost of dry wells and a steep decline from already producing fields; hence we expect day rates to recover by 20% in both 2011 and 2012.

## More than 120% upside to peer group multiples...

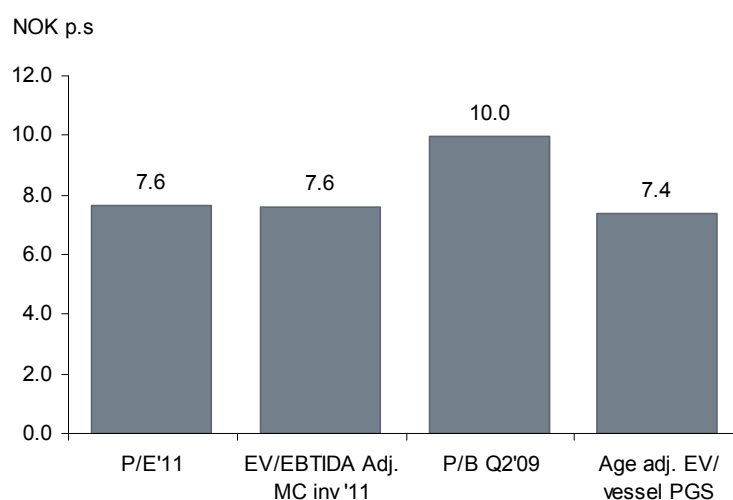
### ~120% upside to age adjusted EV/ vessel calculations

Polarcus currently trades at a 55% discount to age adjusted EV/ vessel comparison to PGS, representing a 124% upside potential to the share price if Polarcus were to trade in line with PGS.

### ~130-200% upside to peer group multiples

We estimate Polarcus trades at ~20% and 30% discounts to PGS and peers on EV/EBITDA adj. for MC inv. respectively. However, given that Polarcus has significant financial leverage the discount on P/E and P/B is significantly more at 57 and 67% respectively. If Polarcus were to trade in line with peers this implies an upside in the share price of ~130% to 200% on EV/EBITDA adj. for MC investments and P/B respectively.

### Valuation summary peer group comparison



Source: ABGSC

## ...and if the cycle recovers the stock could quadruple

### ~120% upside mid cycle DCF based on new building parity

In our mid cycle DCF scenario, assuming day rates return back to new building parity in 2011, we forecast a ~120% upside in the share.

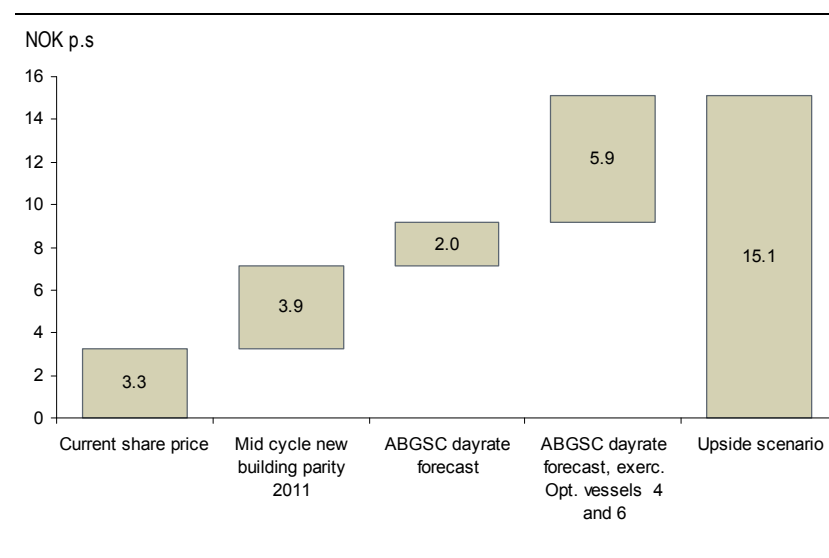
### 180% upside to DCF based on ABGSC day rate forecast

In our day rate forecast for the seismic industry we are forecasting day rates to recover 20% in both 2011 and 2012, leading to 180% upside for the current share price.

### If Polarcus exercise the options the stock could quadruple

If our market outlook for the seismic industry proves to be right, with day rates recovering by some 20% in 2011 and 2012 before returning to back to newbuilding parity by 2013, it would make sense for Polarcus to exercise its option for vessels 4 and 6 by the end of Q3'2010. Although Polarcus will need to secure additional funding of USD 232m under this scenario, it would be highly accretive to our valuation and point to a DCF value of NOK 15.1 per share.

### Upside potential to our target price



Source: ABGSC

# Investment summary

## Company description

Polarcus is in the process of establishing itself as a major full-service seismic company, focusing on the high-end of the marine 3D market with a fleet consisting of four newbuilds: three 12-streamer vessels and one 6-streamer vessel. All vessels are scheduled for delivery between Q4'09 and Q3'10. In addition, the company holds options to build an additional four vessels, with delivery dates from Q3'10.

In order to offer a full service operation to clients, including 3D, wide and multi-azimuth and high density 4D, the company plans to offer data processing via a four-year agreement with the leading global non-aligned data processing company, GX Technology Corporation. Under the agreement, GX Technology Corporation will offer quality control and data processing services onboard the Polarcus vessels.

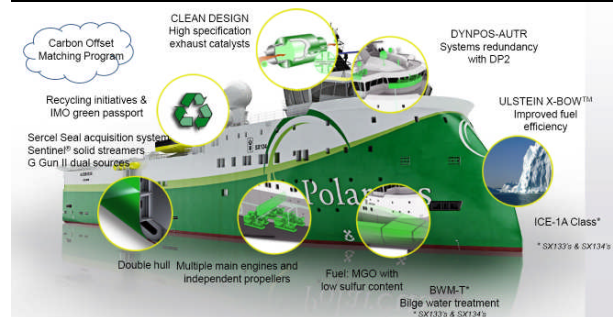
### A management with a proven track record

Polarcus has a highly experienced management team consisting of more than 152 employees, with top management holding more than 215 years of collective experience from the industry, from well-recognized companies such as PGS and Western Geco. Furthermore, the key founders of the company were also the main brains behind the successful newbuilding company, Eastern Echo, which was eventually taken over by Western Geco.

### Taking the clean pole position...

Polarcus also aims to be the preferred seismic provider in areas that have a high environmental agenda. All of the vessels include the innovative ULSTEIN X-BOW hull that provides for smoother and more fuel efficient passage through water. The unique design is also expected to have the lowest environmental footprint in the industry, backed by the Det Norske Veritas clean design notation, i.e. all vessels run on marine gas oil with low sulphur content and are fitted with an engine exhaust catalyst for the main engine exhaust line to reduce emissions of SOx, NOx, HC and soot. The design also includes a double hull and doesn't have tanks adjacent to the water and has a unique bilge water cleaner which reduces contaminants to <5ppm.

## A unique environmental design



Source: Polarcus

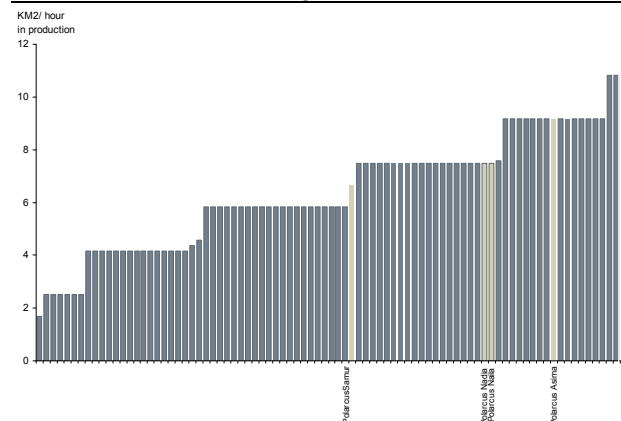
### ...and prepared for the Arctic...

In addition, both the vessels Polarcus Samur (6-streamer) and the Polarcus Asima (12-streamer) are the only purpose-built seismic vessels equipped with the ice class classification ICE-1A, which enables them to operate in harsh environments such as the Arctic. The same design is also relevant for the options on vessels 4 and 6. Hence, Polarcus's vessels should have a clear competitive advantage compared to the rest of the world's seismic fleet in environmentally sensitive areas that are yet to be covered by geophysical data, i.e. the Arctic region covers 6% of the Earth's surface and is estimated to have the potential to hold as much as 27% of the world's known reserves, of which only 10% has been discovered to date. Furthermore, 84% of future reserves estimated to be in the Arctic region are thought to be offshore.

### ...with a higher efficiency

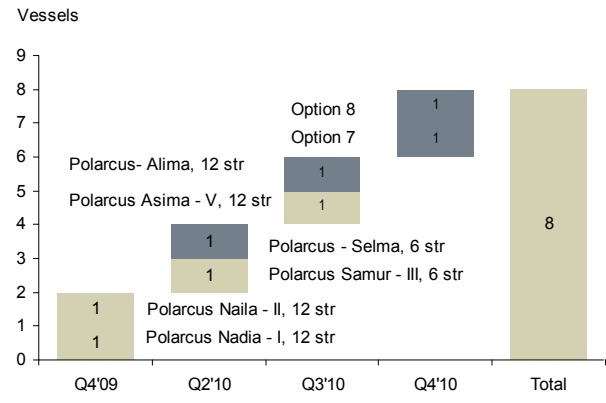
Polarcus brand new fleet has strong operational efficiency compared to the rest of the world's 3D fleet. i.e looking at the efficiency measured by both transit speed and km2 hour in production we forecast that Polarcus's fleet on average would outnumber 80% of the existing 3D vessels. Furthermore, this in combination with approx. 20% lower cost driven by the efficient ULSTEIN X-BOW hull reducing the fuel consumption.

## Operational efficiency



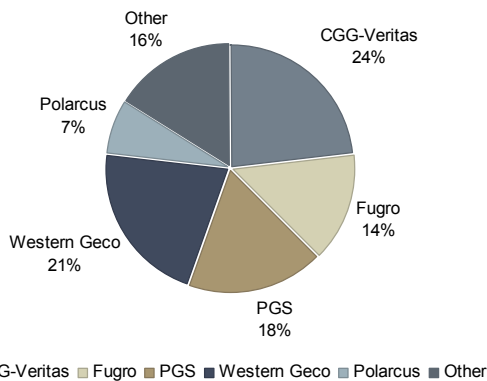
Source: ABSGC

**Fleet expansion**



The rapid expansion of capacity makes Polarcus the only new entrant into seismic. This is particularly the case for the high-end 3D vessels where Polarcus will make up 7% of the total capacity, excluding the options for vessels Polarcus Selma and Polarcus Alima. Including the options for these vessels, Polarcus could increase its market share to 11%.

**Polarcus' projected market share for 2010, post expected stacking (excluding options)**



The above is based on our forecast of a total fleet of high-end 3D vessels (>6 Streamer) which we calculate is set to average 56 vessels in 2010, taking into account the already announced scrapping of older vessels. We argue that Polarcus might become a major force within the marine seismic segment and hence believe the valuation should be in line with major industry peers.

**Listen to the Echo**

The seismic industry has experienced a number of acquisitions in recent years with all pure play seismic newbuilds being acquired by the existing players. The most important recent acquisitions are listed below:

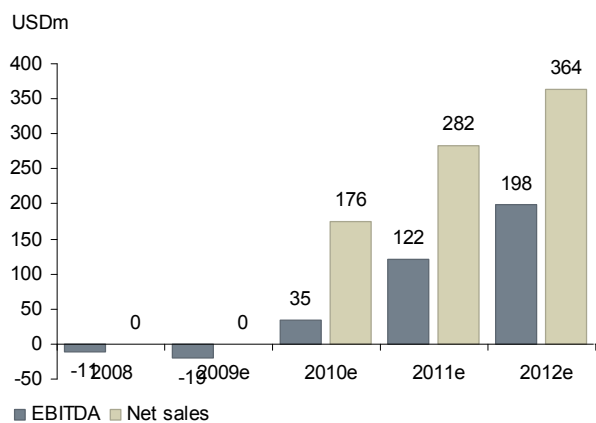
- Arrow seismic was acquired by PGS in November 2007 for a total consideration of USD 866m.
- Eastern Echo was acquired by Western Geco in November 2007 for a total consideration of USD 1,259m.
- Wavefield was acquired by CGG Veritas in November 2008 for a total consideration of USD 720m.

At present, Polarcus represents the only new entrant to the industry and, as far as we can see, could be a potential acquisition target for the already established players. The management team of Polarcus was the key initiative behind Eastern Echo.

**Forecasts**

In terms of earnings, we forecast that Polarcus should grow its revenues from close to nothing to USD 282m by 2011, driven by a ramp-up in capacity to four vessels with a 22% increase in day rates after the trough level we project in 2010.

**Polarcus– Revenue and EBITDA forecasts**



**Polarcus growth drivers**

Growth drivers	2010e	2011e	2012e
Fleet capacity	n.m	28%	0%
Day rates	n.m	21.6%	20.0%

Source: ABGSC

At present Polarcus has entered into a 3 month contract for Polarcus Nadia with TGS commencing in December. In addition TGS has the right to extend the charter in two 6 months increments under pre-agreed commercial terms. We forecast the day rate to be USD 170 USD k per day.

Polarcus has also received a letter of award for a 2m survey for a leading independent oil company offshore west Arica. The award is contingent upon final governmental approval and the execution of a service contract. Given a final award of this contract we forecast that Polarcus should have more than 80% contract coverage on the available capacity in Q1.

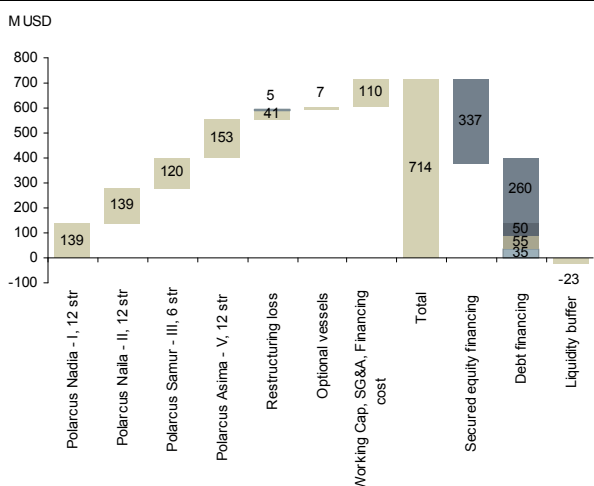
**A fully financed fleet**

The total project cost for the building of four vessels is estimate to be USD 714m. All financing is already secured through a combination of USD 337m in equity and USD 400m in debt creating an additional cash buffer of USD 23m above the estimate project cost. The debt financing is composed of a USD 180m sale lease-back on the vessels Polarcus Nadia and Polarcus Naila, a vendor finance of USD 50m, a USD 55m senior secured bond and a convertible bond of USD 35m. The 5-year senior secured bond carries an interest of 13%, while the 5-year convertible bond carries an interest of 8.5% At Septemer 2 '09 Polacus also entered in to a long term senior secured facility of USD 80m with DVB bank and Eksportfinans guaranteed by GIEK. The facility carries an interest of Libor +4.5%.

Limited for USD 1 each, Polarcus has incurred a restructuring loss of USD 46m. However, following the restructuring, Polarcus will have no further financial obligations for the vessels, but will continue to supervise their ongoing construction. At the same time Polarcus will have the option to repurchase each of the vessels for a price equal to the additional cost incurred by its completion. At present this option carries a value of USD 41m in the balance sheet when adjusting for a USD 5m impairment loss. If Polarcus chooses to exercise the option to buy the vessels back, it will incur a total cost of USD 232m (USD 120m for Polarcus Selma and USD 153m for Polarcus Alima, adjusted for already incurred building costs of USD 41m).

We forecast the working capital (after revenues net of opex), SG&A and financing cost to be USD 45m, USD 35m and USD 30m, respectively.

**Project cost and financing**



Source: Polarcus

Following the restructuring of the Polarcus group, of which vessels 4 and 6 were sold to the Zickerman Group Limited and Zickerman Holding

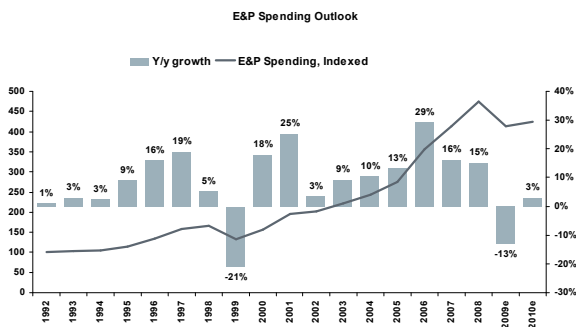
# Market backdrop

## E&P spending to recover in 2010...

Following the financial turmoil and the credit crisis triggering a drop in the oil price from USD 140 to USD 35 per barrel, E&P spending experienced a setback in 2009, with total spending now forecast to be down 13% on 2008 levels. However, despite a significant decline in E&P spending in 2009, the oil companies' spending continues at a high level, and in an historical context, is still comparable to the 2007 level.

Furthermore, looking into 2010, our E&P spending survey, which covers approx. 60% of the world's E&P spending, indicates a recovery of 3% in 2010.

## E&P spending forecast



Source: ABG Sundal Collier

Although uncertainty in final spending levels for 2010 remains, and will ultimately be determined by the oil price in H2'09, we believe some comfort can be found in the oil companies' current oil price forecast for 2010 still being some 10% below the current oil price.

## Forecasting oil prices (USD/bbl)

	2008	2009	2010
Total E&P spending	66.7	55.3	59.1
Majors	66.7	55.0	60.0
NOC	55.7	57.3	63.2
Independents	68.4	51.0	53.1
E&P	76.0	57.0	60.0

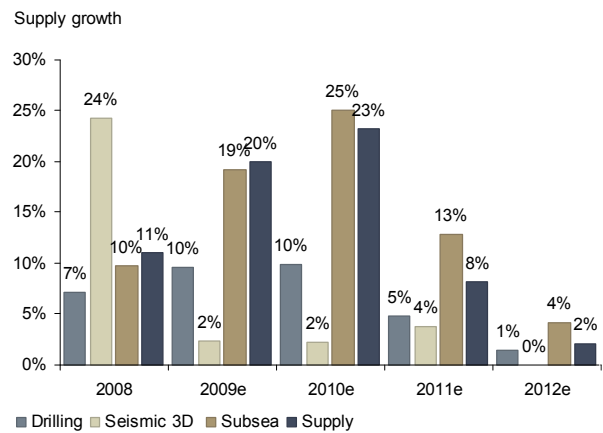
Source: ABG Sundal Collier

## ...but supply growth is up across all segments

Despite a recovery in E&P spending, the growth in supply in most oil services segments will trigger a weakening pricing environment. This is because most of the Norwegian oil services segments earn the majority of their profits from day rates, with utilization being the key earnings driver. However, looking at the different oil services segments,

seismic actually stands out as the most attractive as it is the most consolidated and has the lowest forecast supply growth.

## Oil services supply growth



Source: ABGSC

Furthermore, as seismic was one of the tightest segments within oil services in the last up cycle, we believe its early cyclical nature and high exposure to the oil price mean it offers the highest leverage to the recovery in the oil price.

## Long-term drivers still valid

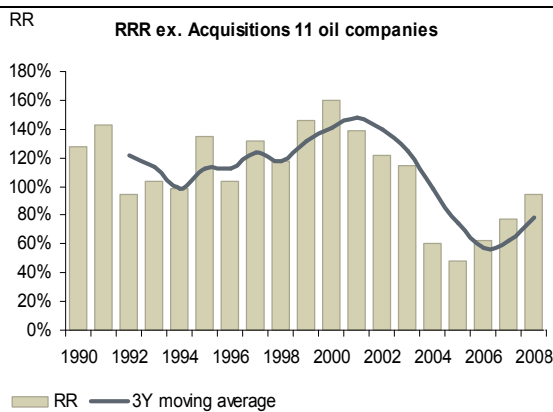
Although the near-term outlook remains uncertain and will ultimately be determined by the oil price in H2'09, as previously mentioned, we continue to be bullish on the long-term prospects as the oil companies are still facing the same structural challenges, being:

- Low reserve replacement ratios.
- High underlying depletion on producing fields.
- Oil production becoming more challenging.

## Falling reserve replacement ratios

The oil industry continues to struggle to increase its reserve replacement ratios (RRR) with the current three-year moving average slightly above 80%. For example, in order to sustain production growth of 2% over time, an oil company needs to sustain an RRR of over 115%.

**Reserve replacement ratios: Major oil companies, excluding acquisitions**

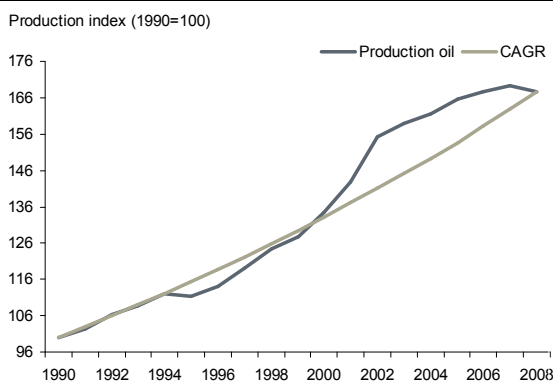


Source: ExxonMobil, RD Shell, BP, Chevron, Total, ENI, ConocoPhillips, Repsol, StatoilHydro and BG

**High underlying depletion on producing fields**

More of the world's oil fields have entered into peak production and are in rapid decline. One can now include Russia and Mexico in the category of declining areas, in addition to the North Sea and the US, which have been declining for a while. According to the EIA analysis of the world's 500 largest fields, the underlying average production-weighted observed rate of decline, worldwide, was as high as 6.7% for those fields past peak production. In addition, when stripping out the ongoing and period investment, the underlying rate of decline is expected to be as high as 9% for post peak fields. Furthermore, the observed rate of decline is expected to increase to around 10.5% as more small fields enter production and as the number of offshore fields increases. High underlying depletion rates will require high upstream investment in both existing and new production facilities in order to sustain current production levels.

**Oil production growth majors and super majors**

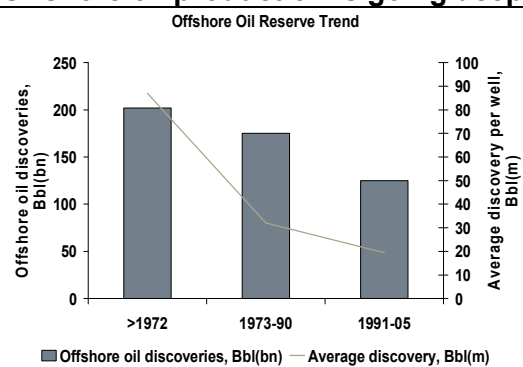


Source: ExxonMobil, RD Shell, BP, Chevron, Total, ENI, ConocoPhillips, Repsol, StatoilHydro and BG

**Oil production becoming more challenging**

Oil companies are suffering at the hands of low reserve replacement ratios, as well as smaller, deeper and more complex reservoir economics in more remote and less accessible areas, coupled with fewer, larger discoveries. In other words, most of the low hanging fruit has been picked. The next frontier is probably deep water, where one has seen important discoveries lately. Important deepwater areas include Brazil, the Gulf of Mexico and West Africa. Common to these is the greater challenge and therefore higher E&P costs. Furthermore, development in deepwater takes a long time, typically in the region of ten years.

**Offshore oil production is going deeper**



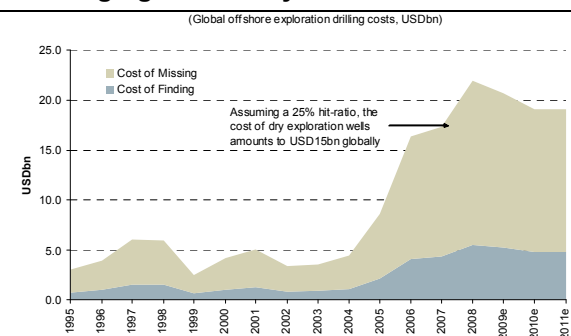
Source: ABGSC.

**There is only one solution**

The only relevant solution for the oil companies to solve these structural challenges is to drill more exploration and production wells. This also has a clear positive bearing on seismic, as drilling and seismic activity goes hand-in-hand.

This also has a clear positive bearing on seismic, as drilling and seismic activity goes hand-in-hand and as seismic is the only available technology to reduce the surging cost of dry wells, as illustrated by the chart below.

**The surging cost of dry wells**



Source: ABGSC, ODS Petrodata

## Seismic market - early cyclical and attractive

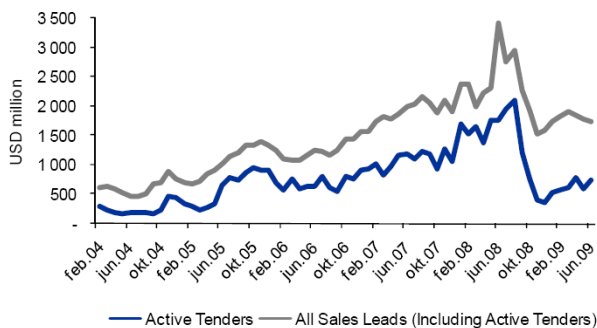
We forecast that the demand for seismic is set to stabilize in 2010 at the 2005/6 level. Furthermore, after taking into account the reductions in capacity already announced, we believe utilization should stabilize at around 90%, with day rates down approx. 45% from peak. Looking into 2011, we forecast a 20% increase in day rates as utilization recovers to 100%.

### Demand: trough in 2010, demand recovering in 2011

#### Seismic market to stabilize at 2006 levels

There was a significant drop in demand for seismic surveys in 2009 as oil companies cut back on exploration spending. Although some companies have reported resilience in revenues, this was more to do with a high order backlog going into 2009 as a result of the spike in the oil price in the second half of 2008, than a sustained order flow. At present we forecast total seismic demand of USD 5bn, comparable to the 2005/2006 levels, down ~40% from the 2008 level.

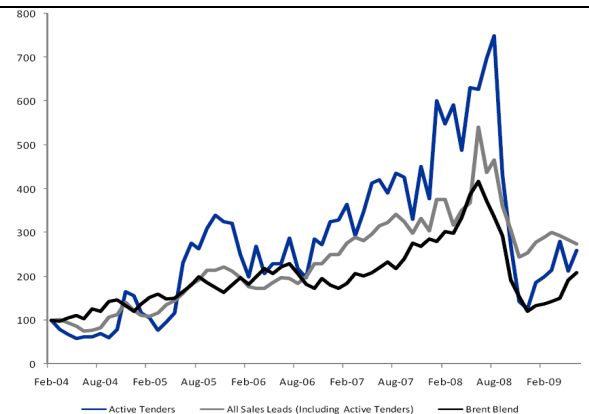
#### Tendering activity



### Seismic demand is early cycle and should be the first to recover

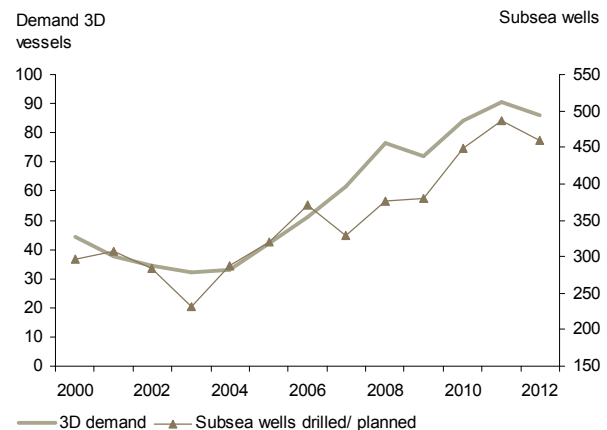
Seismic demand is early cycle with an almost perfect correlation to the oil price. We still see the long-term fundamentals supporting oil companies' E&P spending as valid, namely falling reserve replacement ratios and declining production profiles. In addition, the current recovery in the oil price should restore seismic spending sooner than in previous cycles. This is supported by our E&P spending surveys showing a recovery of 3% in 2010, compared with a drop of 13% in 2009.

### Oil price drives seismic demand



Looking at drilling activity as measured by the number of subsea wells, which historically has had a very strong correlation with the seismic demand, we get the impression that the number of active vessels should remain at fairly high levels going forward, indicating that demand for seismic should remain healthy.

### Seismic demand goes hand-in-hand with drilling activity

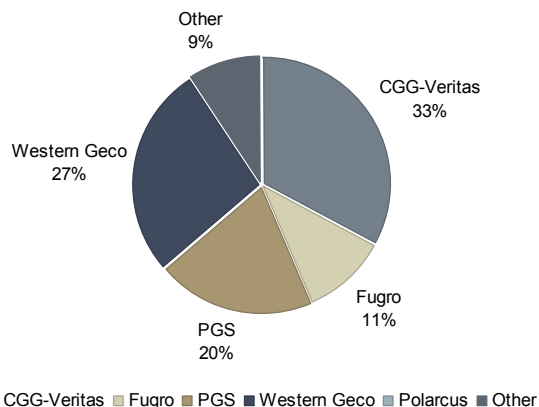


## The supply fear has vanished

### A more consolidated market has reduced capacity much faster than in previous downturns

At present, seismic is the most consolidated segment in oil services with the three main players controlling 80% of the total capacity.

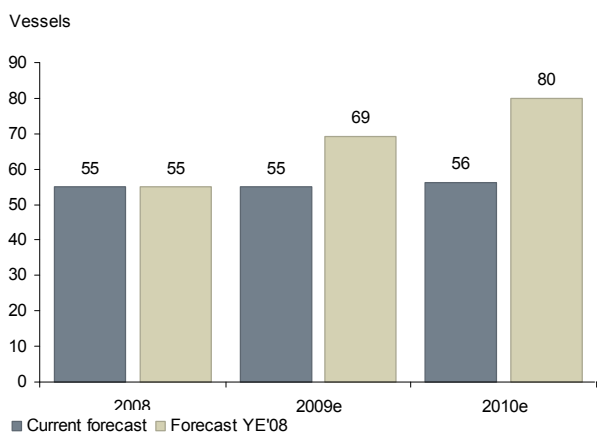
#### Seismic 3D fleet as at 2008



Source: ABGSC

The seismic companies have so far been reluctant to increase multi-client (MC) spending to maintain utilization compared with previous downturns. This, plus the extensive consolidation in the industry, means that supply seems to have come down much faster than in previous downturns. When the seismic market was in oversupply in 2000 it took four years before the 3D fleet was reduced by 20%. At the end of '08 we had forecast supply growth of 25% in '09, but our current forecast is for no growth.

#### High end 3D vessels supply forecast



Source: ABSGC

## Announced scrapping

**CGG Veritas:** has stated that it aims to stack three 6-streamer vessels in '09 with a total of seven to eight vessels expected to be stacked in '10 (two additional 6-streamer vessels).

**Western Geco:** has stacked two 6-streamer vessels and expects to stack up to eight vessels.

**PGS:** has indicated that the Orient Explorer, Ocean Pearl and Pacific Explorer are potential stacking candidates.

## New builds cancelled or delayed

**Scan Geo:** three new-builds cancelled.

**Arrow Vessels:** PGS is unlikely to take delivery of its last vessel and Western Geco is unlikely to take delivery of vessel number one and two (likely to end up in the total seismic fleet). We are not worried about the stacked vessels returning to the market

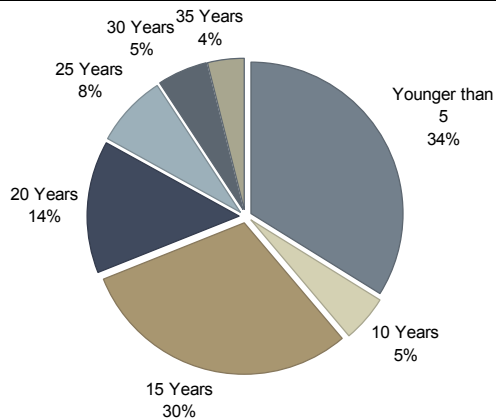
A key concern of the market's is whether the stacked vessels will eventually come back onto the market as soon as seismic demand recovers, and so put day rates under pressure and thus limit profitability. However we are not worried because:

- If the vessels return it would be for the right reason, implying a recovery in demand which would clearly be positive given current valuation levels.
- Low end vessels returning to the market would imply that utilization levels have recovered, and instil belief in a future pick-up in day rates. Historically, seismic stocks have performed very well in periods when utilization levels rise, as illustrated in the chart on the next page.

Furthermore, given our survey's outlook for only a slight recovery in demand and utilization stabilizing, we believe there is every likelihood that the scrapped vessels will not return to the seismic market, given their inefficiency (they carry fewer streamers) and the continued shift in seismic demand towards high-end data.

Another aspect making it less likely that the scrapped vessels are likely to return to the market is that many of these vessels are very old. Hence in 2010 we forecast that approx. 20% of the world's seismic fleet will be more than 20 years old. A seismic vessel typically has an estimated life time of 30 years.

**Age of 3D seismic fleet in 2010**

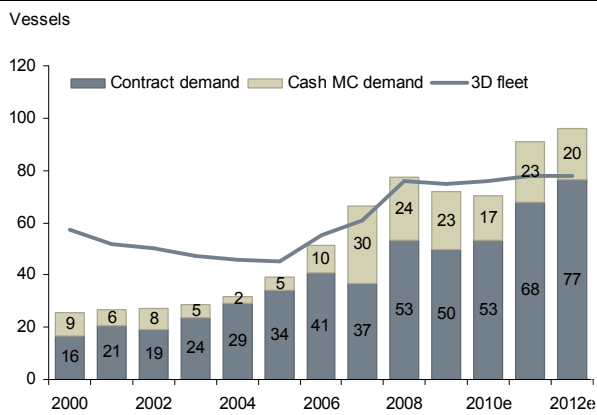


Source: ABGSC

**Expect market to balance in 2010**

Looking at the supply and demand balance for 3D vessels post stacking, we forecast that it will be in balance in 2010.

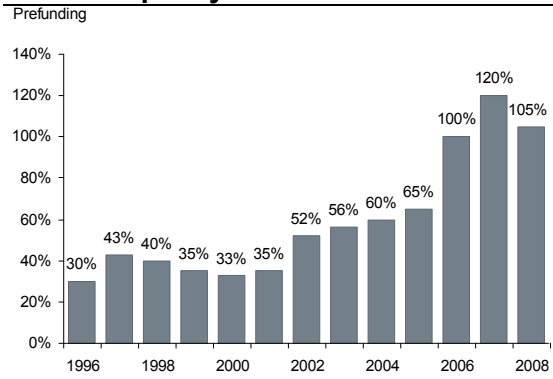
**Supply demand forecast 3D vessels**



Source: ABGSC

Another factor that we believe will have a positive impact on the market's balance in 2010 is that we still foresee a high level of MC investment with much of it pre-funded. In fact, many seismic companies have indicated that there are several MC surveys with more than 100% prefunding. As contract margins are weak, we understand that the market is worried that seismic companies are increasing MC investment with low prefunding in order to increase overall utilization. We believe that this is not yet the case as all companies have shown a proactive approach to reduce capacity. Furthermore, in contrast to the last downturn, the availability of credit is dramatically lower. The graph below shows that last year's MC investments were completely prefunded in contrast to the last downturn.

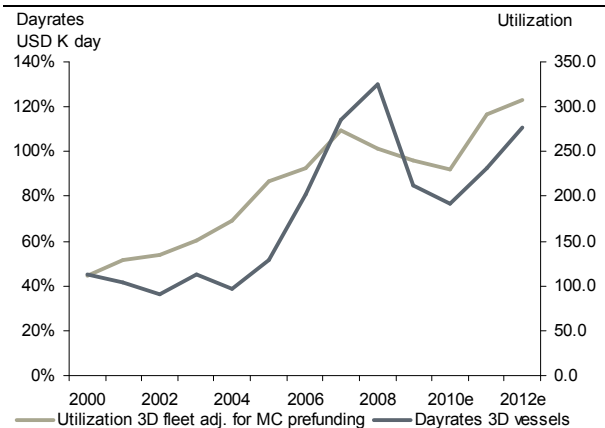
**Expect high prefunding MC investments to reduce capacity available for contract**



Source: ABGSC

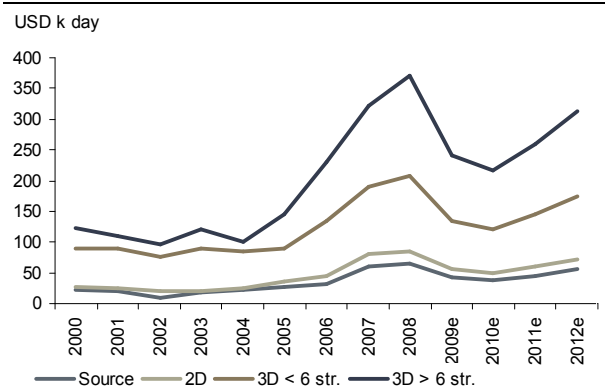
For 2010 and 2011 we forecast that MC investments will make up c. 25% of the available capacity at 90% prefunding levels. Based on our demand forecast and announced scrapped vessels, we forecast that contract utilization should bottom in 2010 at 92%, before recovering to the 100% level in 2011 – triggering a 20% increase in day rates. In our 2012 forecast, day rates are still 16% below the 2008 level.

**Utilization forecast to recover in 2010 with day rates bottoming out**



Source: ABGSC

**Day rate forecasts**

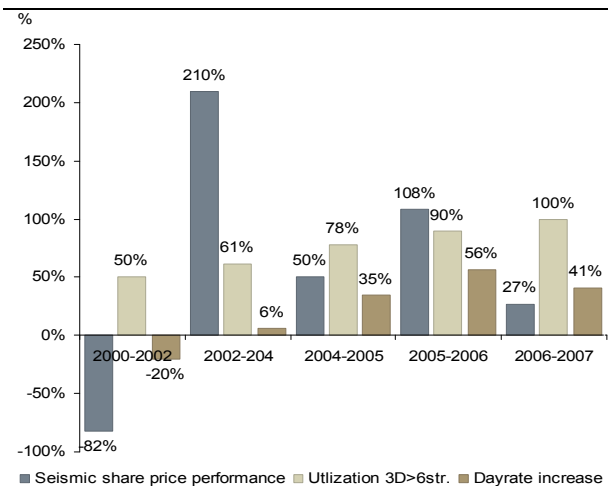


Source: ABGSC

**Utilization drives share price performance**

Seismic share price performance is highly correlated with utilization. As illustrated by the chart below, seismic stocks rallied 210% during the two years following their trough in 2002, while utilization increased from 50% (adjusted for MC investments with low prefunding) to 61%. In the same period day rates were more or less flat. Logically, an increase in utilization triggers belief that day rates are likely to increase.

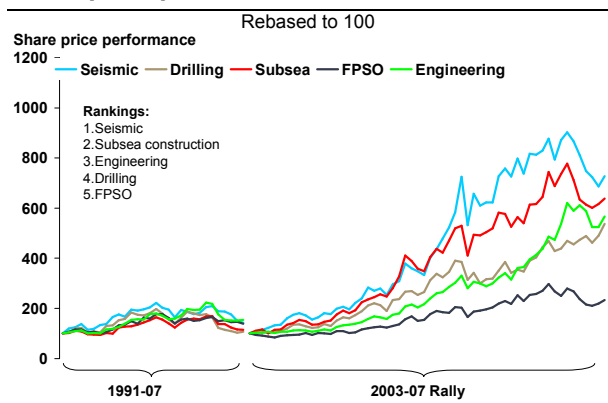
**Utilization drives share price performance**



Source: ABGSC

The seismic segment has also been the best performer in the oil services segment when looking at historical rallies.

**Share price performance in historical rallies**



Source: ABGSC, Datastream.

**Forecasts**

**Expect day rates to recover in 2011**

Our earnings forecast for Polarcus is illustrated below. Our calculations are based on the guidance given by the company and our day rate forecast for other companies.

**Day rate forecast per vessel**

Contract Dayrates (\$ '000)	2009e	2010e	2011e	2012e
Polarcus Nadia - I, 12 str	0	204	255	328
Polarcus Naila - II, 12 str	0	206	255	328
Polarcus Samur - III, 6 str		161	191	246
Polarcus Asima - V, 12 str		233	266	343
<b>Average</b>	<b>0</b>	<b>201</b>	<b>241</b>	<b>311</b>

EBITDA, USDm	2009e	2010e	2011e	2012e
Polarcus Nadia - I, 12 str	0	26	39	60
Polarcus Naila - II, 12 str	0	21	39	60
Polarcus Samur - III, 6 str	0	4	24	40
Polarcus Asima - V, 12 str	0	8	43	64
G&A	-19	-24	-25	-26
<b>Total</b>	<b>-19</b>	<b>35</b>	<b>122</b>	<b>198</b>

Source: ABGSC

As can be seen in the sensitivity tables below, we believe the most important earnings driver by far will be the day rates. Our base case 2011 forecast includes three 12-streamer vessels and one 6-streamer vessel. In our forecast we have assumed that the vessels will be operating 100% in the contract market, with 80% utilization.

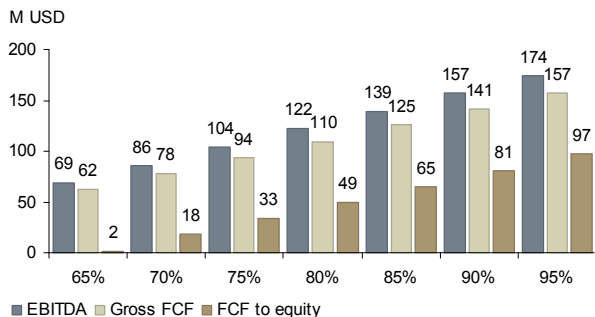
**Sensitivity to day rate assumptions 2011**

Utilisation	80%	80%	80%	80%	80%	80%	80%
# of 12 streamer vessels - owned	1	1	1	1	1	1	1
# of 12 streamer vessels - leased	2	2	2	2	2	2	2
# of 6 streamer vessels	1	1	1	1	1	1	1
Day rate 12 streamer vessels (k)	183	208	233	258	283	308	333
Day rate 6 streamer vessels (k)	146	161	176	191	206	221	236
<b>Average effective T/C rate, k/day</b>	<b>139</b>	<b>157</b>	<b>175</b>	<b>193</b>	<b>211</b>	<b>229</b>	<b>247</b>
Opex/d 12 streamer vessels (k) - owned	97	97	97	97	97	97	97
Opex/d 12 streamer vessels (k) - leased	97	97	97	97	97	97	97
Opex/d 6 streamer vessels (k)	87	87	87	87	87	87	87
<b>Revenues</b>	<b>201</b>	<b>226</b>	<b>252</b>	<b>282</b>	<b>304</b>	<b>330</b>	<b>356</b>
COGS	-136	-136	-136	-136	-136	-136	-136
S, G & A	-25	-25	-25	-25	-25	-25	-25
<b>EBITDA</b>	<b>40</b>	<b>66</b>	<b>92</b>	<b>122</b>	<b>144</b>	<b>170</b>	<b>195</b>
Depreciation	-44	-44	-44	-44	-44	-44	-44
<b>EBIT</b>	<b>-4</b>	<b>22</b>	<b>48</b>	<b>78</b>	<b>100</b>	<b>125</b>	<b>151</b>
Interest costs	-37	-37	-37	-37	-37	-37	-37
<b>PTP</b>	<b>-41</b>	<b>-15</b>	<b>11</b>	<b>40</b>	<b>62</b>	<b>88</b>	<b>114</b>
Taxes	4	2	-1	-4	-6	-9	-11
<b>Net Profit</b>	<b>-37</b>	<b>-14</b>	<b>10</b>	<b>36</b>	<b>56</b>	<b>80</b>	<b>103</b>
Maintenance Capex	-8	-8	-8	-8	-8	-8	-8
<b>Gross FCF</b>	<b>36</b>	<b>59</b>	<b>83</b>	<b>110</b>	<b>129</b>	<b>153</b>	<b>176</b>
Debt Repayments	-23	-23	-23	-23	-23	-23	-23
Interest costs	-37	-37	-37	-37	-37	-37	-37
<b>FCF to Equity</b>	<b>-24</b>	<b>-1</b>	<b>22</b>	<b>49</b>	<b>69</b>	<b>92</b>	<b>116</b>

Source: ABGSC

Our forecasts are also highly sensitive to utilization levels. Our utilization forecast of 80% reflects that Polarcus will have a slightly smaller fleet and as a consequence will incur more transit. However, this is partly offset by Polarcus's modern fleet having a higher transit speed than the overall seismic fleet.

**Sensitivity to utilization**



Source: ABGSC

We forecast the opex per day to be USD 97k/d for the 12-streamer vessels and USD 87k/d for the 6-streamer vessels, while SG&A costs are forecast at USD 25m per annum. Vessels 1 and 2 are on a financial lease of USD 35,200 k/d. The interest cost related to these lease arrangements is reported as Annuity in the P&L. As Polarcus is incorporated in Dubai, the corporate tax is expected to be only 10%.

**More earnings power in the drawer**

Polarcus also has the option to buy back vessels 4 and 6 for a total cost of USD 232m (USD 120m for vessel 4 and USD 153m for vessel 6, adjusted for already incurred building cost of USD 41m). If Polarcus were to exercise these options we forecast that the EBITDA in our base case would increase to USD 187m from USD 122m in 2011. As both of these vessels are scheduled for delivery in 2010 they would have full earnings power in 2011 should Polarcus exercise these options.

**Sensitivity to 2011 day rate assumptions in the case of exercising the options for vessels 4 and 6**

Utilisation	80%	80%	80%	80%	80%	80%	80%
# of 12 streamer vessels - owned	2	2	2	2	2	2	2
# of 12 streamer vessels - leased	2	2	2	2	2	2	2
# of 6 streamer vessels	2	2	2	2	2	2	2
Day rate 12 streamer vessels (k)	183	208	233	258	283	308	333
Day rate 6 streamer vessels (k)	146	161	176	191	206	221	236
<b>Average effective T/C rate, k/day</b>	<b>137</b>	<b>154</b>	<b>171</b>	<b>189</b>	<b>206</b>	<b>223</b>	<b>241</b>
Opex/d 12 streamer vessels (k) - owned	97	97	97	97	97	97	97
Opex/d 12 streamer vessels (k) - leased	97	97	97	97	97	97	97
Opex/d 6 streamer vessels (k)	87	87	87	87	87	87	87
<b>Revenues</b>	<b>295</b>	<b>333</b>	<b>370</b>	<b>413</b>	<b>445</b>	<b>483</b>	<b>520</b>
COGS	-202	-202	-202	-202	-202	-202	-202
S, G & A	-25	-25	-25	-25	-25	-25	-25
<b>EBITDA</b>	<b>69</b>	<b>106</b>	<b>143</b>	<b>187</b>	<b>218</b>	<b>256</b>	<b>293</b>
Depreciation	-66	-66	-66	-66	-66	-66	-66
<b>EBIT</b>	<b>3</b>	<b>40</b>	<b>78</b>	<b>121</b>	<b>152</b>	<b>190</b>	<b>227</b>
Interest costs	-37	-37	-37	-37	-37	-37	-37
<b>PTP</b>	<b>-34</b>	<b>3</b>	<b>40</b>	<b>84</b>	<b>115</b>	<b>153</b>	<b>190</b>
Taxes	3	0	-4	-8	-12	-15	-19
<b>Net Profit</b>	<b>-31</b>	<b>3</b>	<b>36</b>	<b>75</b>	<b>104</b>	<b>137</b>	<b>171</b>
Maintenance Capex	-8	-8	-8	-8	-8	-8	-8
<b>Gross FCF</b>	<b>64</b>	<b>98</b>	<b>131</b>	<b>170</b>	<b>199</b>	<b>233</b>	<b>266</b>
Debt Repayments	-23	-23	-23	-23	-23	-23	-23
Interest costs	-37	-37	-37	-37	-37	-37	-37
<b>FCF to Equity</b>	<b>4</b>	<b>37</b>	<b>71</b>	<b>110</b>	<b>139</b>	<b>172</b>	<b>206</b>

Source: ABGSC

**Valuation**

**Use of methodology**

We have derived our target price of USD 1.3 per share by way of 3 different valuation criteria:

- A peer group comparison based as EV/EBITDA adjusted for multi client investments, P/E and Price/book.
- A peer group comparison based on age-adjusted EV/vessel comparison to PGS
- DCF valuation based on new building parity

**~130% upside to peer group multiples**

Looking at the peer group valuation we forecast an equity fair value of NOK 7.6.p.s based on 2011e EV/EBITDA multiples adjusted for MC investments. We argue that 2011 multiples are the most relevant as this is the first year Polarcus will operate fully with four vessels. We argue that despite being a newbuilding company, Polarcus should trade fairly in line with its main peers given its modern fleet.

The average peer group P/B implies a fair value of NOK 10.0 p.s. However, there is a huge variation in P/B multiples among the different peers. We argue that PGS is the most relevant due to its high-end marine seismic focus trading at 1.4x P/B.

The average peer group P/E multiple for 2011 implies a valuation of NOK 7.6 p.s. The P/E multiples are positively impacted by the fact that Polarcus has a relatively higher financial gearing than its peers and a lower tax rate.

**Peer group multiples**

Company	P/E			EV/EBITDA *			P/B
	09e	10e	11e	09e	10e	11e	Q2'09
CGG*	15.7	25.2	11.9	6.1	7.5	6.0	0.7
PGS	10.4	17.0	9.3	5.5	8.0	4.7	1.4
Fugro*	11.4	13.1	11.5	5.9	6.2	5.6	2.6
TGS	12.0	11.3	11.3	9.0	6.8	6.5	2.3
Polarcus	-5.1	-5.5	4.2	N.m	14.3	3.6	0.5
<b>Average</b>	<b>8.9</b>	<b>12.2</b>	<b>9.6</b>	<b>6.6</b>	<b>8.6</b>	<b>5.3</b>	<b>1.5</b>
<b>Discount Peers</b>	<b>N.m</b>	<b>N.m</b>	<b>-57%</b>	<b>N.m</b>	<b>67%</b>	<b>-31%</b>	<b>-67%</b>
<b>Implied share price peers</b>			<b>7.6</b>			<b>7.6</b>	<b>10.0</b>
<b>Upside potential</b>			<b>129%</b>			<b>128%</b>	<b>199%</b>

Note: All companies except PGS, TGS and Polarcus are not rated by ABGSC; estimates for these companies are from JCF/ Bloomberg.

~120% upside to age adj. EV/ vessel comparison to PGS

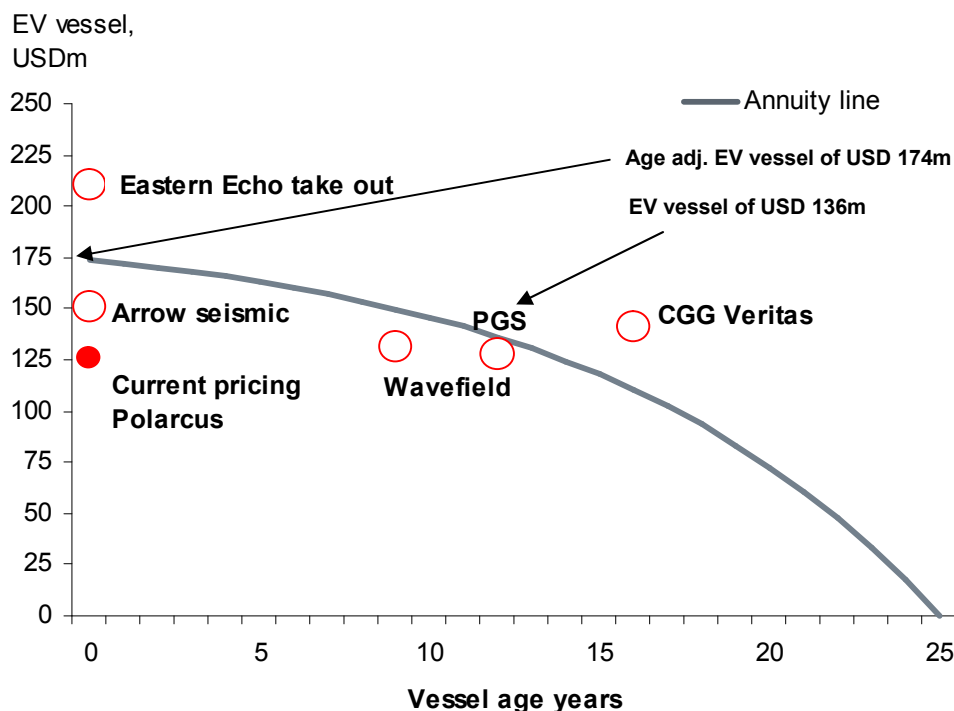
USDm	M.Cap	Net debt*10	EV	
Market cap	1933	634	2567	
EM			28	
Onshore			53	
Data processing			95	
METI			65	
Book value MC library x2			718	
<b>2D/ Source vessels</b>	<b>Comment</b>	<b>Blt</b>	<b>Streamers</b>	<b>M USD</b>
Beaufort explorer	Conv. 3D	1998	6	76
Nordic Explorer	Conv. 3D	1986	6	44
Ocean Explorer	Conv. 3D	1979	6	25
Falcon Explorer		1997	1	20
Polar Sea		2007	1	32
Polar pearl		2008	1	33
Southern Explorer		1995	1	18
<b>Total none vessel related values</b>				<b>1206</b>
<b>Net vessel EV 3D</b>				<b>1361</b>
	<b>Blt</b>	<b>EV</b>	<b>Vessel #</b>	
EV/ vessels 3D	1998	1361	10	136
Age adjusted EV/vessel				174
Implied age adj. vessel EV Polarcus				696
Net debt 2010				352
Implied market cap				344
<b>Value per share</b>				<b>7.4</b>
Current share price				3.3
<b>Upside</b>				<b>124%</b>

Source: ABGSC.

In our 2010 age adjusted EV/vessel comparison to PGS we have adjusted the current EV for non 3D vessel related values. In total we forecast USD 1.2bn of non 3D vessel related values. This figure also includes the value of the 3D vessels that are currently being converted to 2D /source vessels. For the remaining 10 3D vessels we forecast a total EV of USD 1.36bn, equal to an EV per 3D vessel of USD 136m.

To take the differences in age into account, we have then adjusted the market based EV/vessel calculations according to an annuity line as illustrated in the chart below. Using the annuity line we forecast an age adjusted EV/ vessel for PGS of USD 174m. Using the same EV/vessel multiple for Polarcus we forecast vessel EV of USD 696m, equal to a value per share of NOK 7.4 p.s.

Age adjusted EV/ vessel 2010



Source: ABGSC

## 120% upside to mid cycle DCF valuation based on new building cost

### Assumptions

Year	2009
WACC	15%
Inflation	2.5%
Tax	20%
Utilization	80%

### Newbuilding cost USDm

Stage	Current	Stage 2
Year	2009	2011
Hull/Engine	77	80.4
Equipment	77	80.4
<b>Total</b>	<b>153</b>	<b>161</b>
OPEX, USDk day	97	102

In our mid-cycle DCF valuation based on newbuilding parity, we have assumed day rates in line with newbuilding parity from 2011. We have assumed that both the newbuilding and operating costs stay at the current level adjusted for inflation. Applying 15% WACC implies a long-term day rate for Polarcus Asima of USD 232k per day, as illustrated in our newbuilding parity calculations.

### Break-even day rate calculations

					Required				
3D vessel	USDm	Life	WACC	Multiple	Cashfl/y	EBITDA	Cashfl/d	Opex/d	Dayrate
Hull/Engine	80	30	15%	6.6	12	15	50.1		
Equipment	80	15	15%	5.8	14	16	54.3		
<b>Total</b>	<b>161</b>	<b>23</b>	<b>15%</b>	<b>6.2</b>	<b>26</b>	<b>30</b>	<b>104.4</b>	<b>102</b>	<b>232</b>

### Required Vessel P&L

	USDm/Y	USDk/day
Revenues	68	232 --> assumes 80% utilization
Opex	-37	-102
EBITDA	30	83
Depreciation	-8	-22
EBIT	22	61
<b>EBITDA-Margin</b>	<b>45%</b>	<b>36%</b>
<b>EBIT Margin</b>	<b>33%</b>	<b>27%</b>

Based on our average newbuilding parity day rate of USD 225k (slightly lower than for Asima reflecting the lower building cost for the 2 first 12 streamer vessels.) per day for the 12-streamer vessels and USD 196 per day for the 6-streamer vessel, we arrive at an equity value of USD 333m, equal to NOK 7.2 p.s.

Source: ABGSC.

## Mid cycle DCF valuation as based on new building parity

	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e	TV		
<b>Utilisation</b>	<b>80%</b>	<b>80%</b>	<b>80%</b>	<b>80%</b>	<b>80%</b>	<b>80%</b>	<b>80%</b>	<b>80%</b>	<b>80%</b>	<b>80%</b>		
# of 12 streamer vessels - owned	0	1	1	1	1	1	1	1	1	1		
# of 12 streamer vessels - leased	0	2	2	2	2	2	2	2	2	2		
# of 6 streamer vessels	0	1	1	1	1	1	1	1	1	1		
Day rate 12 streamer vessels (k)	0	204	225	231	237	243	249	255	261	268		
Day rate 6 streamer vessels (k)	0	161	196	201	206	211	216	222	227	233		
<b>Average effective T/C rate, k/day</b>	<b>0</b>	<b>152</b>	<b>177</b>	<b>181</b>	<b>186</b>	<b>190</b>	<b>195</b>	<b>200</b>	<b>205</b>	<b>210</b>		
Opex/d 12 streamer vessels (k) - owned		-96	97	99	102	104	107	110	112	115		
Opex/d 12 streamer vessels (k) - leased	-87	-94	97	99	102	104	107	110	112	115		
Opex/d 6 streamer vessels (k)		-86	87	89	91	94	96	99	101	104		
<b>USDm</b>	<b>09'2H</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>	<b>2013e</b>	<b>2014e</b>	<b>2015e</b>	<b>2016e</b>	<b>2017e</b>	<b>2018e</b>	<b>2019e</b>	<b>TV</b>
Revenue	0	176	255	261	268	274	281	288	295	303	310	318
COGS	0	-116	-136	-141	-145	-148	-152	-156	-160	-164	-168	-172
S, G & A	-10	-24	-25	-25	-26	-26	-27	-28	-29	-29	-30	-31
<b>EBITDA</b>	<b>-10</b>	<b>35</b>	<b>94</b>	<b>95</b>	<b>97</b>	<b>99</b>	<b>102</b>	<b>104</b>	<b>107</b>	<b>110</b>	<b>112</b>	<b>115</b>
Depreciation	-6	-33	-44	-44	-44	-44	-44	-44	-44	-44	-44	-44
<b>EBIT</b>	<b>-16</b>	<b>3</b>	<b>50</b>	<b>50</b>	<b>53</b>	<b>55</b>	<b>58</b>	<b>60</b>	<b>63</b>	<b>66</b>	<b>68</b>	<b>71</b>
Interest costs	-1	-34	-37	-37	-37	-37	-37	-37	-37	-37	-37	-37
<b>PTP</b>	<b>-19</b>	<b>-31</b>	<b>13</b>	<b>13</b>	<b>16</b>	<b>18</b>	<b>21</b>	<b>23</b>	<b>26</b>	<b>28</b>	<b>31</b>	<b>34</b>
Taxes	2	3	-4	-1	-2	-2	-2	-2	-3	-3	-3	-3
<b>Net Profit</b>	<b>-17</b>	<b>-28</b>	<b>9</b>	<b>12</b>	<b>14</b>	<b>16</b>	<b>19</b>	<b>21</b>	<b>23</b>	<b>26</b>	<b>28</b>	<b>31</b>
Maintenance Capex	-202	-96	-8	-8	-8	-8	-15	-20	-20	-20	-20	-25
Working capital	-16	-85										
<b>Gross FCF</b>	<b>-226</b>	<b>-142</b>	<b>82</b>	<b>85</b>	<b>87</b>	<b>89</b>	<b>85</b>	<b>82</b>	<b>84</b>	<b>87</b>	<b>89</b>	<b>87</b>
Terminal Value												936
Year	0.25	0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5	10.5
WACC %	12	97%	95%	85%	76%	68%	61%	54%	49%	43%	39%	31%
EV	370	-219.6	-134.4	69.4	64.3	59.1	54.2	45.8	39.7	36.5	30.9	290.9
Option vessel 4 and 6	41											
Option vessel 7 and 8	7											
<b>Total EV</b>	<b>418</b>											
Net debt Q2'09	86											
Remaining capex	0											
Equity value, M USD	333											
<b>Value per share</b>	<b>7.2</b>											

Source: ABGSC.

# Significant upside if the cycle recovers

## 180% upside to ABGSC day rate forecast with new building parity from 2013

This calculation reflects our seismic pricing scenario for 2009-2012 with day rates being flat throughout 2010, before recovering by 20% in 2011 and then gradually returning to newbuilding parity by 2013. Our terminal value calculations are also based on newbuilding parity. In our terminal value calculations we have also included CAPEX levels in line with what will be required to maintain the asset base over time based on replacement costs. Our DCF valuation points to an equity value of NOK 9.2 p.s.

	80%	80%	2011e 80%	2012e 80%	2013e 80%	2014e 80%	2015e 80%	2016e 80%	2017e 80%	2018e 80%	2019e 80%	TV 80%
<b>Utilisation</b>												
# of 12 streamer vessels - owned	0	1	1	1	1	1	1	1	1	1	1	1
# of 12 streamer vessels - leased	0	2	2	2	2	2	2	2	2	2	2	2
# of 6 streamer vessels	0	1	1	1	1	1	1	1	1	1	1	1
Day rate 12 streamer vessels (k)	0	204	258	333	237	243	249	255	261	268	275	281
Day rate 6 streamer vessels (k)	0	161	191	246	206	211	216	222	227	233	239	245
<b>Average effective T/C rate, k/day</b>	<b>0</b>	<b>152</b>	<b>196</b>	<b>253</b>	<b>186</b>	<b>190</b>	<b>195</b>	<b>200</b>	<b>205</b>	<b>210</b>	<b>216</b>	<b>221</b>
Opex/d 12 streamer vessels (k) - owned		-96	97	99	102	104	107	110	112	115	118	121
Opex/d 12 streamer vessels (k) - leased	-87	-94	97	99	102	104	107	110	112	115	118	121
Opex/d 6 streamer vessels (k)		-86	87	89	91	94	96	99	101	104	106	109
<b>USDm</b>	<b>09'2H</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>	<b>2013e</b>	<b>2014e</b>	<b>2015e</b>	<b>2016e</b>	<b>2017e</b>	<b>2018e</b>	<b>2019e</b>	<b>TV</b>
<b>Revenue</b>	<b>0</b>	<b>176</b>	<b>282</b>	<b>364</b>	<b>268</b>	<b>274</b>	<b>281</b>	<b>288</b>	<b>295</b>	<b>303</b>	<b>310</b>	<b>318</b>
COGS	0	-116	-136	-141	-145	-148	-152	-156	-160	-164	-168	-172
S, G & A	-10	-24	-25	-25	-26	-26	-27	-28	-29	-29	-30	-31
<b>EBITDA</b>	<b>-10</b>	<b>35</b>	<b>122</b>	<b>197</b>	<b>97</b>	<b>99</b>	<b>102</b>	<b>104</b>	<b>107</b>	<b>110</b>	<b>112</b>	<b>115</b>
Depreciation	-6	-33	-44	-44	-44	-44	-44	-44	-44	-44	-44	-44
<b>EBIT</b>	<b>-16</b>	<b>3</b>	<b>78</b>	<b>153</b>	<b>53</b>	<b>55</b>	<b>58</b>	<b>60</b>	<b>63</b>	<b>66</b>	<b>68</b>	<b>71</b>
Interest costs	-1	-34	-37	-37	-37	-37	-37	-37	-37	-37	-37	-37
<b>PTP</b>	<b>-19</b>	<b>-31</b>	<b>40</b>	<b>116</b>	<b>16</b>	<b>18</b>	<b>21</b>	<b>23</b>	<b>26</b>	<b>28</b>	<b>31</b>	<b>34</b>
Taxes	2	3	-4	-12	-2	-2	-2	-2	-3	-3	-3	-3
<b>Net Profit</b>	<b>-17</b>	<b>-28</b>	<b>36</b>	<b>104</b>	<b>14</b>	<b>16</b>	<b>19</b>	<b>21</b>	<b>23</b>	<b>26</b>	<b>28</b>	<b>31</b>
Maintenance Capex	-202	-96	-8	-8	-8	-8	-15	-20	-20	-20	-20	-25
Working capital	-16	-85										
<b>Gross FCF</b>	<b>-226</b>	<b>-142</b>	<b>110</b>	<b>177</b>	<b>87</b>	<b>89</b>	<b>85</b>	<b>82</b>	<b>84</b>	<b>87</b>	<b>89</b>	<b>87</b>
Terminal Value												936
Year	0.25	0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5	10.5
WACC %	12	97%	95%	85%	76%	68%	61%	54%	49%	43%	39%	31%
EV	464	-219.6	-134.4	92.7	134.2	59.1	54.2	45.8	39.7	36.5	30.9	290.9
Option vessel 4 and 6	41											
Option vessel 7 and 8	7											
<b>Total EV</b>	<b>512</b>											
Net debt Q2'09	86											
Remaining capex	0											
Equity value, M USD	426											
<b>Value per share</b>	<b>9.2</b>											

Source: ABGSC.

### Sensitivity to WACC and day rate forecast

2010-12 prices vs base case	WACC				
	10%	11%	12%	13%	14%
-30%	223	222	221	221	220
-20%	293	291	289	288	286
-10%	363	360	358	355	352
0%	433	429	426	422	418
10%	503	498	494	489	485
20%	573	567	562	556	551
30%	643	636	630	623	617

2013-19 price vs base case	WACC				
	10%	11%	12%	13%	14%
-30%	160	159	157	156	155
-20%	260	253	247	241	235
-10%	360	348	336	325	315
0%	460	442	426	410	395
10%	560	537	515	494	475
20%	660	631	604	579	556
30%	760	726	694	664	636

Terminal Value prices vs base case	WACC				
	10%	11%	12%	13%	14%
-30%	139	138	138	137	137
-20%	287	256	234	216	202
-10%	435	375	330	295	268
0%	583	493	426	374	333
10%	731	611	522	453	399
20%	879	729	618	532	464
30%	1027	848	713	610	530

(Source: ABGSC.)

The sensitivity to the pricing and various WACC levels are shown in the right hand table.

## If day rates recover and Polarcus exercise the options for 2 additional vessels the stock could quadruple

If our day rate forecast turns out to be right, we believe it would make perfect sense for Polarcus to exercise the options for Polarcus Selma and Polarcus Alima. Although, the company will incur an additional CAPEX cost of USD 232m, it will be highly accretive to our DCF valuation, implying a value per share of NOK 15.1.

		2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e	TV	
<b>Utilisation</b>	<b>80%</b>	<b>80%</b>	<b>80%</b>	<b>80%</b>	<b>80%</b>	<b>80%</b>	<b>80%</b>	<b>80%</b>	<b>80%</b>	<b>80%</b>	<b>80%</b>	
# of 12 streamer vessels - owned	0	1	2	2	2	2	2	2	2	2	2	
# of 12 streamer vessels - leased	0	2	2	2	2	2	2	2	2	2	2	
# of 6 streamer vessels	0	1	2	2	2	2	2	2	2	2	2	
Day rate 12 streamer vessels (k)	0	204	258	333	237	243	249	255	261	268	275	
Day rate 6 streamer vessels (k)	0	161	191	246	206	211	216	222	227	233	239	
<b>Average effective T/C rate, k/day</b>	<b>0</b>	<b>152</b>	<b>191</b>	<b>247</b>	<b>184</b>	<b>188</b>	<b>193</b>	<b>198</b>	<b>203</b>	<b>208</b>	<b>213</b>	
Opex/d 12 streamer vessels (k) - owned		-96	97	99	102	104	107	110	112	115	118	
Opex/d 12 streamer vessels (k) - leased	-87	-94	97	99	102	104	107	110	112	115	118	
Opex/d 6 streamer vessels (k)		-86	87	89	91	94	96	99	101	104	106	
<b>USDm</b>	<b>09'2H</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>	<b>2013e</b>	<b>2014e</b>	<b>2015e</b>	<b>2016e</b>	<b>2017e</b>	<b>2018e</b>	<b>2019e</b>	<b>TV</b>
<b>Revenue</b>	<b>0</b>	<b>176</b>	<b>413</b>	<b>533</b>	<b>397</b>	<b>407</b>	<b>417</b>	<b>427</b>	<b>438</b>	<b>449</b>	<b>460</b>	<b>472</b>
COGS	0	-116	-202	-210	-215	-221	-226	-232	-238	-244	-250	-256
S, G & A	-10	-24	-25	-25	-26	-26	-27	-28	-29	-29	-30	-31
<b>EBITDA</b>	<b>-10</b>	<b>35</b>	<b>187</b>	<b>297</b>	<b>156</b>	<b>160</b>	<b>164</b>	<b>168</b>	<b>172</b>	<b>176</b>	<b>180</b>	<b>185</b>
Depreciation	-6	-33	-66	-66	-66	-66	-66	-66	-66	-66	-66	-66
<b>EBIT</b>	<b>-16</b>	<b>3</b>	<b>121</b>	<b>231</b>	<b>90</b>	<b>94</b>	<b>98</b>	<b>102</b>	<b>106</b>	<b>110</b>	<b>115</b>	<b>119</b>
Interest costs	-1	-34	-37	-37	-37	-37	-37	-37	-37	-37	-37	-37
<b>PTP</b>	<b>-19</b>	<b>-31</b>	<b>84</b>	<b>194</b>	<b>53</b>	<b>56</b>	<b>60</b>	<b>65</b>	<b>69</b>	<b>73</b>	<b>77</b>	<b>82</b>
Taxes	2	3	-4	-19	-5	-6	-6	-6	-7	-7	-8	-8
<b>Net Profit</b>	<b>-17</b>	<b>-28</b>	<b>80</b>	<b>175</b>	<b>47</b>	<b>51</b>	<b>54</b>	<b>58</b>	<b>62</b>	<b>66</b>	<b>70</b>	<b>74</b>
Maintenance Capex	-202	-96	-8	-8	-8	-8	-15	-20	-20	-20	-20	-25
Working capital	-16	-85										
<b>Gross FCF</b>	<b>-226</b>	<b>-142</b>	<b>175</b>	<b>270</b>	<b>142</b>	<b>146</b>	<b>142</b>	<b>141</b>	<b>145</b>	<b>149</b>	<b>152</b>	<b>152</b>
Terminal Value												1637
Year	0.25	0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5	10.5
WACC %	12	97%	95%	85%	76%	68%	61%	54%	49%	43%	39%	31%
EV	1011	-219.6	-134.4	147.7	204.2	88.3	77.1	68.4	62.8	57.7	53.0	509.0
Option vessel 4 and 6	0											
Option vessel 7 and 8	7											
<b>Total EV</b>	<b>1018</b>											
Net debt Q2'09	86											
Remaining capex	232											
Equity value, M USD	700											
<b>Value per share</b>	<b>15.1</b>											

Source: ABGSC estimates

## Risk factors

Any investment in securities contains risks linked to economic activity, financial market performance and sentiment, taxation and other political involvement, as well as accounting changes.

### Construction risk

There is a risk that the four vessels under construction at Drydocks World LLC could be delayed or be more expensive than originally budgeted for. This could have a materially adverse effect on the financial position of the company. However, according to Polarcus, all vessels should currently be within budget and on the updated schedule. A potential default of the yard or any of the sub suppliers could also have an adverse effect on the company's financial position.

### Market risk

There is a risk that the supply and demand balance of the seismic market continues to weaken or fails to recover. This could have a negative impact on both the utilization of the vessels and the day rates. A 10% lower day rate for 2011 than our forecast would reduce EBITDA by 23%. A 10% drop in utilization would reduce our 2011 EBITDA forecast by 29%.

### Credit risk

The company's revenues will be dependent on contract awards, which again will be dependent on the customers' financial position and willingness to honour their obligation towards Polarcus. As at today, Polarcus has not been awarded any contracts.

### Cost inflation

We have allowed for a 2.5% annual cost increase in our forecast for 2009-2011. If this were to double to 5% annual growth, our 2011 EBITDA would be reduced by 3%.

### Currency

The company carries out its business in USD, has most of its costs in USD and reports in USD. The USD risk is primarily an exchange risk vs. the share price which is traded in NOK.

## Conclusion

### Investment case

- Polarcus is the only new entrant and aims to be the fastest growing seismic player in the industry with the ambition to capture a 7% share of the high-end seismic market by 2010, with four high-end fully financed vessels already scheduled for delivery between Q3'09 to Q2'10. The management team is strong with collective experience from the industry of more than 215 years.
- Polarcus has a first class modern fleet which can reach higher transit speeds and has better fuel efficiency, which should make Polarcus well equipped to navigate through the current market environment. It also has options for two additional vessels with attractive delivery slots which, in our view, should make Polarcus a relative winner once the market recovers.
- The seismic market looks attractive to us, as it is the most consolidated and has the lowest supply growth in the oil service sector by our calculations. Furthermore, seismic is early cycle and should be the first to benefit from the recovery in the oil price.
- We believe Polarcus is a likely takeover candidate as all pure play entrants in the seismic market have so far been acquired by the existing players.

### Valuation

- Polarcus trades at a 55% discount to PGS on age adjusted EV/vessel calculations, a 30-70% discount to peers on earnings multiples and a 55% discount to our mid cycle DCF valuation based on new building parity. This implies an upside potential to the current share price between 130-200%.
- Our DCF valuation based on our day rate forecast assuming a 20% recovery in both '10 and '11 points to a value of 180% upside to the current share price. Furthermore, if Polarcus were to exercise its option for two additional vessels under this scenario we estimate the stock could quadruple.

## Appendix A - Company details

### Executive management

#### Rolf Rønningen - CEO

Mr. Rønningen has over 28 years of seismic industry experience and has held senior positions at GECO, PGS and, most recently, Eastern Echo, where he held the position of CEO. His experience covers both technical and operational management of towed streamer seismic vessels.

#### Tom Henrik Sundby - CFO

Mr. Sundby gained his background in financial management and business development within the consulting and fast moving consumer goods industries.

#### Peter Zickerman

Mr. Zickerman is Executive VP and Head of Strategic Investments. He has over 14 years of industry experience and was formerly a founder of both GeoBird Management and Eastern Echo.

#### Eirin M. Inderberg

Ms. Inderberg, general counsel, has over 13 years' experience as a lawyer and was formerly General Counsel at Eastern Echo. Prior to this she worked for Wikborg Rein & Co. in Oslo and London, and as a lawyer at the Oslo Børs.

#### Paul Hanna

Mr. Hanna, senior VP, Human Resources, has over 22 years of industry experience and has held senior positions in various divisions of Schlumberger.

#### Christian Fenwick

Mr. Fenwick holds the position of senior VP Business Development & Multi Client. He has over 26 years of industry experience and has held senior positions at Merlin Geophysical, Geco-Prakla, Schlumberger Information Solutions, and Eastern Echo.

#### Jeff Corkhill

Mr. Corkhill, senior VP Operations, has over 26 years of industry experience and has held several senior positions at Schlumberger WesternGeco, Caspian Geophysical and AGO.

#### Svein Johnny Naley

Mr. Naley, senior VP Technology, has over 15 years of industry experience and has held senior positions at PGS, Reservoir Exploration Technology (RXT), and most recently at Eastern Echo where he was responsible for the company's fleet newbuild project.

#### Trygve Reksten

Mr. Reksten, senior VP Sales, has over 17 years of industry experience and has held several management positions at PGS and Eastern Echo.

#### Christopher J. Griffin

Mr. Griffin, VP for EHS&Q, has over 23 years of industry experience, both onshore and offshore, with Western Geophysical, Horizon Exploration, PGS and Eastern Echo.

#### Magnus Oberg

Mr. Oberg, VP IT, has over 20 years of experience managing IT systems in maritime companies.

### Board of Directors

#### Peter Rigg - Chairman

Mr. Rigg has an extensive background in investment banking with 21 years' experience working in Asia and Europe, principally for Credit Suisse First Boston where until 1995 he was a Managing Director responsible for Asian Equity Capital Markets. Since 2005 he has been an independent non-executive Director of General Enterprise Management Services (International) Ltd. He is currently also an independent non-executive Director of Schroder's Oriental Income Fund Limited and of two Asian private equity funds specialising in Asia.

#### Geoff Taylor

Mr. Taylor has held the position of Chief Executive Officer of Drydocks World LLC since 2004. He started his extensive career with Drydocks World in 1984, and has since held senior management roles within the organisation, leading to his current appointment as CEO.

#### Alan Locker

Mr. Locker currently holds the position of Chief Technical Officer at Drydocks World LLC, where he has played a pivotal role in the start-up of the company. Prior to his appointment as CTO he was working as the Technical Director at Dubai Drydocks.

**Carl-Gustav Zickerman**

Mr. Zickerman has experience in the seismic industry gained from his involvement in the start-up of Eastern Echo and, prior to that, the SeaBird Group. At the SeaBird Group he was working as Director and Partner.

**Carl-Peter Zickerman**

Mr. Zickerman has experience in the seismic industry, most recently gained from his last start-up venture, Eastern Echo. Prior to this he founded GeoBird, a marine seismic services provider, later sold to SeaBird Exploration. At present he is working in the capacity of Executive Vice President & Head of Strategic Investments with Polarcus Ltd.

**Hege Sjo**

Ms. Sjo has over the last few years worked for Hermes Investment Management Ltd in London, with responsibility for the shareholder engagement programmes in Continental Europe. Prior to this role she worked in corporate consulting in Norway. She has had an extensive career at the Oslo Stock Exchange where she held several executive positions including the roles of Marketing Director and Chief Financial Officer.

**Kitty Hall**

Ms. Hall currently holds the position of Chief Executive at ARKeX Ltd, UK, where she is also a founding shareholder. Prior to this she was Managing Director of ARK Geophysics Ltd. She has 30 years' experience within the geophysics industry with a focus on technology and business development.

**Tore Karlsson**

Mr. Karlsson has extensive senior management experience in the upstream oil & gas industry. Since 2002 he has been based in London as a marketing and technical consultant/partner and is a founder or co-founder of MemeTree Ltd, MoVa AS and GeoPublishing Ltd, publishing the magazine GEO ExPro. Tore is also an associate professor at the Centre for Entrepreneurship at the University of Oslo. He was Chairman of the Board of Eastern Echo prior to its acquisition by Schlumberger Ltd in 2007.

**Mr. Jogeir Romestrand**

Mr. Jogeir Romestrand is 47 years old and has worked for the ODIM Group in different positions since 1985, mainly within marketing and sales. He has held the position as Chief Executive Officer and President of ODIM ASA since 2003. Mr. Romestrand resigned from ODIM ASA 1 August 2009, and currently runs his own investment company. Mr. Romestrand is educated as engineer from Møre and Romsdal Ingeniørhøyskole in 1983 and within business.

**Shareholders****Ownership structure**

Name	M shares	%
Drydocks World	38	14.20%
Zickerman Holding limited	30	11.50%
Zickerman Group Limited	20	7.60%
BGL BNP Paribas (nominee)	19	7.30%
Awilco Invest	11	4.20%
JPMorgan Chase Bank	9.0	3.4%
The Northern Trust Co	8.8	3.3%
Deutsche Bank AG London	8.6	2.5%
Deutsche Bank AG London	6.5	2.5%
Caceis Bank Luxembourg	6.2	2.4%
Morgan Stanley	5.8	2.2%
Citigroup Global Markets	4.9	1.9%
Prima Societa' DI	4.4	1.7%
State Street Bank and Trust Co	4.3	1.6%
UBS AG, London	4.0	1.5%
Zickerman Group Ltd	4.0	1.5%
Goldman Sachs International	3.9	1.5%
JPMorgan Chase Bank	3.1	1.2%
Brown Brothers Harriman & Co	2.9	1.1%
<b>Total</b>	<b>194.4</b>	<b>73.0%</b>
Others	68.8	27%
<b>Total</b>	<b>263</b>	<b>100%</b>

Source: Polarcus.

**Dilutive instruments**

M shares	
Shares associated with convertible debt	10.8
Shares associated with the warrants	21.3
Shares associated with the stock options	6.3
<b>Total</b>	<b>38.3</b>

**Debt instruments**

The Company has secured the following debt like financing:

**Debt financing and other**

- USD 35m 8.5% Subordinated Callable Convertible
- USD 55m 13.0% Senior Secured callable Bond
- USD 50m in vendor financing
- USD 180m in a Sale and Lease-back arrangements
- USD 80m bank facility

The Company issued a USD 35 million convertible bond loan on 24 July 2008. The interest rate is fixed at 8.5% per annum payable semi-annually in arrears each 30 January and 30 July. The loan will run without installments and mature in whole on 30 July 2013 at par value. The conversion price is set to USD 3.24 per Share and the loan can be converted totally into 10,802,496 Shares.

The Company entered into a USD 55,000,000 senior secured bond loan agreement on 24 July 2008. The interest rate is fixed at 13% per annum payable semi-annually in arrears each 30 January and 30 July. The loan will run without installments and mature in whole on 30 July 2013 at par value. The bond has an equity covenant of 30% of capital employed (i.e. total book equity plus interest bearing debt) and dividend restrictions. Norsk Tillitsmann ASA is acting as loan trustee for the loan.

The Group has on 30 June 2008 and as amended on 29 July 2009 entered into a sale and lease-back financing arrangement for its first two vessels, Polarcus Nadia and Polarcus Naila. The total cash inflow from this arrangement is USD 180 million (i.e. USD 90 million per vessel).

In September 2009 the Company signed a loan agreement with DVB Bank SE and Eksportfinans for a 5 year USD 80 million bank loan secured by first priority mortgage in the vessel "Polarcus Asima". The facility will bear an interest of LIBOR (USD) plus a margin of 4.5% payable in semi-annually arrears from the first drawdown. The bond has covenant of USD 150m in book equity, USD 22m in working capital and USD 10m unencumbered cash (incl. USD 12m escrow.)

**Appendix B - Supplier details****Shipyard - Dubai Drydocks**

- Founded in 1983, owned by the Royal family, 8,500 employees.
- Shipbuilding/repairs/conversions.
- Focus on repairs (tankers) and conversions, primarily FPSOs and FSOs (used by SBM, BWO, FOP), and on newbuilds of jack-ups, semi-submersible hulls, supply vessels, barges and geo-technical vessels.
- 5,000 vessels have been repaired at the yard.
- Constructed and delivered Eastern Echo's last two seismic vessels which had the same Ulstein X - bow design.

**Sub-supplier details****Ulstein**

- Hull design

The Company has, through its vessel-owning subsidiaries, entered into agreements with Ulstein Design AS entitling the Company to use the ULSTEIN X-Bow design on the vessels. The contracts also include a package of equipment for each vessel, such as main engines and propulsion units (only for vessels 1 and 2), generators, bridge and navigation equipment as well as other miscellaneous equipment.

**Odim (Norway)**

- Back deck and seismic handling equipment.

The Company has through its vessel owning subsidiaries entered into contracts with Odim AS for seismic handling systems for the vessels at a total fixed value of NOK 237,956,236.

**LMF**

- Source compressors

The vessel owning subsidiaries has ordered high pressure air compressors with a value of EUR 2,914,600 per vessel from Leobersdorfer Maschinenfabrik AG.

**Sercel**

- Leading seismic equipment manufacturer

The Company has entered into a contract with Sercel Inc for marine acquisition equipment (streamer systems) for the four vessels with a total value of approximately USD 81 million (fixed price).

**Wartsila**

- Main engines

The Group has also entered into several other contracts regarding the equipment for the vessels, such as contracts for main engines from Wartsila and propulsion systems from Berg Propulsion as well as contracts for other miscellaneous items. (in total around 40 suppliers per vessel).

**ION**

- Positioning equipment

The Company has through its vessel-owning subsidiaries ordered from ION International S.a.r.L the streamer position and control systems for each

vessel with a total approximate value of USD 17 million for the four vessels.

Vessel statistics

			
<p><b>Polarcus Nadia</b></p>		<p><b>Polarcus Naila</b></p>	
Type:	3D Vessel	Type:	3D Vessel
Design:	ULSTEIN SX124	Design:	ULSTEIN SX124
Length: (loa)	88.8m	Length: (loa)	88.8m
Beam:	19.0m	Beam:	19.0m
Streamer capacity:	12	Streamer capacity:	12
Speed	15.0 knots	Speed	15.0 knots
Ice class:	ICE-C	Ice class:	ICE-C
Year built:	2009	Year built:	2009
			
<p><b>Polarcus Asima</b></p>		<p><b>Polarcus Samur</b></p>	
Type:	3D vessel	Type:	3D / source vessel
Design:	ULSTEIN SX134	Design:	ULSTEIN SX133
Length: (loa)	92.0m	Length: (loa)	84.2m
Beam:	21.0m	Beam:	17.0m
Streamer capacity:	12	Streamer capacity:	6
Speed	15.0 knots	Speed	18.0 knots
Ice class:	ICE-1A	Ice class:	ICE-1A
Year built:	2010	Year built:	2010

Source: ABGSC

## Appendix C- Seismic market demand balance

Apparent Demand	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009e	2010e	2011e	2012e
Source	3	3	2	2	3	5	7	9	13	9	12	13	15
2D	15	19	18	22	26	31	38	40	39	33	35	40	41
Seabed	3	3	3	3	4	5	7	8	11	11	11	12	14
Shallow water3D	0	1	1	1	1	1	1	1	1	1	1	1	1
3D < 6 str.	13	10	8	8	9	12	15	17	21	19	16	22	23
3D > 6 str.	31	28	26	24	24	30	36	45	55	53	56	69	73
<b>Total</b>	<b>65</b>	<b>64</b>	<b>58</b>	<b>60</b>	<b>67</b>	<b>84</b>	<b>104</b>	<b>119</b>	<b>140</b>	<b>126</b>	<b>131</b>	<b>157</b>	<b>167</b>
Uncovered Demand	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009e	2010e	2011e	2012e
Source	0	0	0	0	0	0	0	0	0	-4	-1	0	2
2D	0	0	0	0	0	0	0	0	0	-7	-5	0	1
Seabed	0	0	0	0	0	0	0	0	0	-1	-1	0	2
Shallow water3D	0	0	0	0	0	0	0	0	0	0	0	0	0
3D < 6 str.	0	0	0	0	0	0	0	0	0	-1	-4	2	3
3D > 6 str.	0	0	0	0	0	0	0	0	0	-2	0	11	15
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-15</b>	<b>-11</b>	<b>13</b>	<b>23</b>
Vessels Working	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009e	2010e	2011e	2012e
Source	3	3	2	2	3	5	7	9	13	13	13	13	13
2D	15	19	18	22	26	31	38	40	39	40	40	40	40
Seabed	3	3	3	3	4	5	7	8	11	12	12	12	12
Shallow water3D	0	1	1	1	1	1	1	1	1	1	1	1	1
3D < 6 str.	13	10	8	8	9	12	15	17	21	20	20	20	20
3D > 6 str.	31	28	26	24	24	30	36	45	55	55	56	58	58
<b>Total</b>	<b>65</b>	<b>64</b>	<b>58</b>	<b>60</b>	<b>67</b>	<b>84</b>	<b>104</b>	<b>119</b>	<b>140</b>	<b>141</b>	<b>142</b>	<b>144</b>	<b>144</b>
Vessels Available	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009e	2010e	2011e	2012e
Source	5	5	5	5	5	5	7	9	13	13	13	13	13
2D	26	32	38	38	38	34	38	40	39	40	40	40	40
Seabed	5	5	5	5	6	6	7	8	11	12	12	12	12
Shallow water3D	0	1	1	1	1	1	1	1	1	1	1	1	1
3D < 6 str.	19	16	16	14	14	14	15	16	21	20	20	20	20
3D > 6 str.	38	36	34	33	32	31	40	45	55	55	56	58	58
<b>Total</b>	<b>93</b>	<b>95</b>	<b>99</b>	<b>96</b>	<b>96</b>	<b>91</b>	<b>108</b>	<b>118</b>	<b>140</b>	<b>141</b>	<b>142</b>	<b>144</b>	<b>144</b>
Spot Market Dayrates USDk	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009e	2010e	2011e	2012e
Source	23	20	10	18	23	27	32	60	65	42	38	46	55
2D	26	25	20	20	25	35	45	80	85	55	50	60	72
Seabed	75	60	50	50	75	75	80	175	225	146	132	158	190
Shallow water3D	26	25	20	20	25	25	69	90	95	62	56	67	80
3D < 6 str.	89	90	75	90	85	90	135	189	208	135	122	146	175
3D > 6 str.	124	110	95	120	100	145	230	322	370	241	217	260	312
<b>Average</b>	<b>60</b>	<b>55</b>	<b>45</b>	<b>53</b>	<b>56</b>	<b>66</b>	<b>99</b>	<b>153</b>	<b>175</b>	<b>114</b>	<b>102</b>	<b>123</b>	<b>147</b>
Y-y increase		-9%	-18%	18%	5%	19%	49%	55%	14%	-35%	-10%	20%	20%

Source: ABGSC

## Appendix D- Forecast details

### Forecast inputs

Earnings days	2008	2009e	2010e	2011e	2012e
Polarcus Nadia - I,	0	0	365	365	365
Polarcus Naila - II,	0	0	335	365	365
Polarcus Samur - II	0	0	214	365	365
Polarcus - Selma, 6	0	0	0	0	0
Polarcus Asima - V	0	0	229	365	365
<b>Total</b>	<b>0</b>	<b>0</b>	<b>1143</b>	<b>1460</b>	<b>1460</b>

Contract Dayrates	2008	2009e	2010e	2011e	2012e
Polarcus Nadia - I,	0	0	204	255	328
Polarcus Naila - II,	0	0	206	255	328
Polarcus Samur - II	0		161	191	246
Polarcus Asima - V	0		233	266	343
<b>Average</b>	<b>0</b>	<b>0</b>	<b>201</b>	<b>241</b>	<b>311</b>

Contract allocation	2008	2009e	2010e	2011e	2012e
Polarcus Nadia - I, 12 str		0%	79%	80%	80%
Polarcus Naila - II, 12 str		0%	79%	80%	80%
Polarcus Samur - III, 6 str		0	73%	80%	80%
Polarcus Asima - V, 12 str		0	73%	80%	80%
<b>Average</b>		<b>40%</b>	<b>78%</b>	<b>80%</b>	<b>80%</b>

Effective T/C Rate:	2008	2009e	2010e	2011e	2012e
Polarcus Nadia - I,	0	0	161	204	263
Polarcus Naila - II,	0		163	204	263
Polarcus Samur - II	0	0	119	153	197
Polarcus Asima - V	0	0	124	213	274
<b>Average</b>	<b>0</b>	<b>0</b>	<b>94</b>	<b>129</b>	<b>166</b>

OPEX (\$ '000)	2008	2009e	2010e	2011e	2012e
Polarcus Nadia - I,	0	-80	-92	-97	-99
Polarcus Naila - II,	0	-94	-95	-97	-99
Polarcus Samur - II	0	0	-86	-87	-89
Polarcus Asima - V	0	0	-96	-97	-99
<b>Average</b>	<b>0</b>	<b>-44</b>	<b>-92</b>	<b>-94</b>	<b>-97</b>
Expensed	0	0	-116	-135	-135
Capitalised	0	0	0	0	0
+ MC add ons	0	0	0	0	0
Total MC Investm.	0	0	0	0	0

Capex, USD	2008	2009e	2010e	2011e	2012e
Polarcus Nadia - I,	-41	-100	-1	-2	-2
Polarcus Naila - II,	-34	-105	0	-2	-2
Polarcus Samur - II	-25	-56	-40	0	0
Polarcus - Selma, 6	-23	-19	0	-2	-2
Polarcus Asima - V	-25	-62	-54	-2	-2
SX 134 - VI, 12 str	-25	-10	0	0	0
Option 7	-3	0	0	0	0
Option 8	-3	0	0	0	0
<b>Total</b>	<b>-178</b>	<b>-344</b>	<b>-96</b>	<b>-8</b>	<b>-8</b>

Source: ABGSC

## Segment details

<b>Segment Analysis</b>				
<b>Revenues, USDm</b>	<b>2009e</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>
Polarcus Nadia - I, 12 str	0	59	74	96
Polarcus Naila - II, 12 str	0	55	74	96
Polarcus Samur - III, 6 str	0	27	56	72
Polarcus Asima - V, 12 str	0	34	78	100
<b>Total</b>	<b>0</b>	<b>176</b>	<b>282.2</b>	<b>364</b>
<b>OPEX, USDm</b>				
<b>OPEX, USDm</b>	<b>2009e</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>
Polarcus Nadia - I, 12 str	0	-33	-35	-36
Polarcus Naila - II, 12 str	0	-34	-35	-36
Polarcus Samur - III, 6 str	0	-23	-31	-32
Polarcus - Selma, 6 str	0	0	0	0
Polarcus Asima - V, 12 str	0	-26	-35	-36
SX 134 - VI, 12 str	0	0	0	0
G&A	-19	-24	-25	-26
<b>Total</b>	<b>-19</b>	<b>-140</b>	<b>-161</b>	<b>-166</b>
			-136	
<b>EBITDA, USDm</b>				
<b>EBITDA, USDm</b>	<b>2009e</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>
Polarcus Nadia - I, 12 str	0	26	39	60
Polarcus Naila - II, 12 str	0	21	39	60
Polarcus Samur - III, 6 str	0	4	24	40
Polarcus Asima - V, 12 str	0	8	43	64
G&A	-19	-24	-25	-26
<b>Total</b>	<b>-19</b>	<b>35</b>	<b>122</b>	<b>198</b>
<b>Depreciation, USDm</b>				
<b>Depreciation, USDm</b>	<b>2009e</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>
Polarcus Nadia - I, 12 str	-3	-11	-11	-11
Polarcus Naila - II, 12 str	-3	-11	-11	-11
Polarcus Samur - III, 6 str	-2	-7	-10	-10
Polarcus - Selma, 6 str	0	0	0	0
Polarcus Asima - V, 12 str	0	-3	-12	-12
SX 134 - VI, 12 str	0	0	0	0
G&A			0	0
<b>Total</b>	<b>-8</b>	<b>-33</b>	<b>-44</b>	<b>-44</b>
<b>EBIT, USDm</b>				
<b>EBIT, USDm</b>	<b>2009e</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>
Polarcus Nadia - I, 12 str	-3	15	28	49
Polarcus Naila - II, 12 str	-3	10	28	49
Polarcus Samur - III, 6 str	-2	-3	15	30
Polarcus - Selma, 6 str	0	0	0	0
Polarcus Asima - V, 12 str	0	5	31	52
SX 134 - VI, 12 str	0	0	0	0
S, G & A	-19	-24	-25	-26
<b>Total</b>	<b>-27</b>	<b>3</b>	<b>78</b>	<b>154</b>

Source: ABGSC

**Income Statement**

USDm	2008	2009e	2010e	2011e
<b>Net sales</b>	<b>0</b>	<b>0</b>	<b>176</b>	<b>282</b>
Operating cost	-11	-19	-140	-161
<b>EBITDA</b>	<b>-11</b>	<b>-19</b>	<b>35</b>	<b>122</b>
Depreciations	0	-11	-33	-44
EBITA	-11	-30	3	78
MC Amortization	0	0	0	0
<b>EBIT</b>	<b>-11</b>	<b>-30</b>	<b>3</b>	<b>78</b>
Interest net	-3	-2	-34	-36
All other financial items	12	0	0	0
Associated income	0	0	0	0
<b>Pretax profit</b>	<b>-2</b>	<b>-32</b>	<b>-31</b>	<b>41</b>
Tax	0	2	3	-4
<b>Profit after tax</b>	<b>-2</b>	<b>-30</b>	<b>-28</b>	<b>37</b>
XO-items after tax	0	0	0	0
<b>Net profit</b>	<b>-2</b>	<b>-30</b>	<b>-28</b>	<b>37</b>
<b>Margins and tax rate</b>				
EBITDA margin, %	n.m.	n.m.	20.1	43.1
EBITA margin, %	n.m.	n.m.	1.6	27.5
EBIT margin, %	n.m.	n.m.	1.6	27.5
Pretax margin, %	n.m.	n.m.	-17.5	14.5
Net margin, %	n.m.	n.m.	-15.8	13.1
Full tax rate, %	n.m.	n.m.	10.0	10.0

**Balance Sheet**

USDm	2008	2009e	2010e	2011e
Cash and liquid assets	189	121	38	92
Receivables	1	0	52	64
Inventories	0	2	0	0
<b>Current assets</b>	<b>190</b>	<b>123</b>	<b>91</b>	<b>155</b>
Intangible assets	1	1	1	1
Shares and participation	0	0	0	0
MC Library	0	0	0	0
Other fixed assets	182	516	580	543
<b>Fixed assets</b>	<b>182</b>	<b>517</b>	<b>580</b>	<b>544</b>
<b>Total assets</b>	<b>372</b>	<b>640</b>	<b>671</b>	<b>700</b>
Short-term debt	5	6	6	6
All other ST liabilities	85	25	12	12
<b>Current liabilities</b>	<b>89</b>	<b>31</b>	<b>18</b>	<b>18</b>
LT interest bearing debt	82	312	384	376
All other LT liabilities	11	11	11	11
<b>Long-term liabilities</b>	<b>93</b>	<b>323</b>	<b>395</b>	<b>387</b>
Minority	0	0	0	0
Shareholders equity	190	286	258	295
<b>Total liab and equity</b>	<b>372</b>	<b>640</b>	<b>671</b>	<b>700</b>

**Cash Flow Analysis**

USDm	2008e	2009e	2010e	2011e
<b>Cash earnings in operat</b>	<b>-11</b>	<b>-17</b>	<b>38</b>	<b>117</b>
Change in working cap	-9	-60	-64	-11
Capital expenditure	-178	-344	-96	-8
MC Investments	0	0	0	0
<b>Operating cash flow</b>	<b>-198</b>	<b>-421</b>	<b>-121</b>	<b>98</b>
Other investments	0	0	0	0
<b>Free cash flow</b>	<b>-198</b>	<b>-421</b>	<b>-121</b>	<b>98</b>
Financial cost after tax	-3	-2	-34	-36
Dividend paid	0	0	0	0
Equity increase	209	119	0	0
XO items after tax	0	0	0	0
Other cash-items	14	13	0	0
<b>Decrease in net debt</b>	<b>23</b>	<b>-292</b>	<b>-155</b>	<b>62</b>

Source: ABG Sundal Collier, company data

**Valuation and return analysis**

	2008	2009e	2010e	2011e
<b>Valuation</b>				
Mkt capitalisation, USDm	134	154	154	154
Enterprise value, USDm	32	350	505	444
P/Sales (x)	0.00	0.0	0.88	0.54
EV/Sales (x)	0.00	0.0	2.88	1.57
EBITDA-multiple (x)	Neg	Neg	14.3	3.6
EBITDA-MC Multiple (x)	Neg	Neg	14.3	3.6
EBIT-multiple (x)	Neg	Neg	178.2	5.7
P/CEPS (x)	Neg	Neg	74.1	2.0
P/E (x)	Neg	Neg	-5.5	4.2
P/OCFPS (x)	N.a.	Neg	-1.0	2.6
EV/OCF (x)	Neg	Neg	-4.2	4.5
Dividend yield, %	0.0	0.0	0.0	0.0
FCF Yield, %	17.1	-189.7	-100.9	40.1
P/BV, %	67	54	60	52
P/NAV, %	67	54	60	52
EV/Cap employed, %	37	73	83	76
<b>Profitability, %</b>				
ROE	N.a.	-11.4	-9.7	14.3
ROCE	N.a.	-10.4	0.5	13.0
After tax ROA	N.a.	-7.0	-4.2	5.4
<b>Gearing, liquidity, debt service, %</b>				
Net debt, USDm	-102	196	352	290
Net gearing	-54	68	136	98
Net gearing at market	-76	128	229	189
Equity ratio	51	45	38	42
Quick ratio (x)	213	394	512	875
Interest cover	N.a.	-230	14	208
<b>Investment ratios, %</b>				
Investment cover	-11	-23	-30	1,282
Capex/sales	n.m.	N.a.	55	3
Capex/depreciation	n.m.	n.m.	295	18
Capex/assets	48	54	14	1
Depreciation/assets	N.a.	6.0	6.3	7.6
<b>Share data, USD</b>				
Price (year-end)	0.6	0.6	0.6	0.6
EPS	-0.02	-0.13	-0.11	0.14
Dividend	0.0	0.0	0.0	0.0
Payout ratio, %	0	0	0	0
Book value	1	1	1	1
Net debt	-1	1	1	1
Avg shares, fully dil (m)	215.2	263.2	263.2	263.2

EBITDA, EBITA and EBIT multiples and return analysis are calculated incl. associated income, dividends received and interest cost charged to operating cost.

Source: ABG Sundal Collier, company data



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