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PGS.OL - Q1 2018 Petroleum Geo Services ASA Earnings Call (Morning)

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CORPORATE PARTICIPANTS

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

Gottfred Langseth *Petroleum Geo-Services ASA - CFO and EVP*

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

CONFERENCE CALL PARTICIPANTS

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

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

Maria-Laura Adurno *Goldman Sachs Group Inc., Research Division - Equity Analyst*

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

Sahar Islam *UBS Investment Bank, Research Division - Analyst*

PRESENTATION

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

Okay. Good morning, and welcome to this, the presentation of PGS Q1 2018 results. My name is Bård Stenberg, Vice President of Investor Relations and Communications.

Today's presentation is being followed by a conference call, and people on the conference call will be invited to ask questions after management remarks. We also have our conference call scheduled for late today at 3 p.m. Central European Time, so that's also an opportunity to follow up our presentation and ask more questions.

Before we start, I would like to give some practical information. As we have this presentation followed by a conference call, I currently ask the audience here in Oslo to ask -- use the microphones provided when asking questions. For the people in Oslo, I would also remind you about the emergency exits located in the back of the room. If the alarm is sounded, please evacuate immediately. Please study the cautionary statements available in today's presentation and earnings release.

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

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

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

Thank you, Bård, and good morning, everyone. We have had a good start to the year, and we are well on our way to achieving our key financial goals, which is to be cash flow positive after debt service in 2018.

In Q1, we delivered revenues of $197.8 million, which is ahead of our plan. We had an EBITDA of $93 -- $92.3 million, and this was mainly driven by strong MultiClient performance: the total MultiClient revenues of $142 million; and a very strong late sales performance of $83.5 million; sales to investment of 2.6x; prefunding level of 109%. So we are experiencing continued strong demand for our MultiClient services.

However, on the marine contract market side, the market is still really challenging. And we've put behind us a seasonally weak winter season, somewhat assisted or helped by a strong and growing 4D markets.

Our total leverage ratio is now below 3.0:1, which is a milestone for us. And we are happy to see that our organization, which has operated in the new model for the first quarter, are able to deliver such strong results.

Our 2018 gross cash cost estimate is adjusted upwards to approximately $600 million to reflect higher activity in Q1 and FX changes and higher fuel prices than we had in our estimates the last time when we reported.

So on the financial summary, I will point a few key points here. First of all, obviously, observe that the revenues in Q1 '18 are significantly higher than the revenues in Q1 '17, and also, of course, that EBITDA is significantly higher in Q1 '18 than they were in Q1 '17, which obviously speaks to a recovering market. We had also a decent cash flow in the quarter of $73 million.

Order book is up from Q4. It now stands at $211 million by the end of Q1. That is lower than what we had in Q1 '17, and it's clear that we, this year, experienced later signing of prefunding revenues for our summer programs in Canada and the North Sea than we experienced last year.

On the booking side, we are fully booked for Q2, 24 months -- vessel months. We are close to fully booked for Q3, 19 vessel months. And we are working on leads and projects for Q4 where we have a low booking.

We plan to operate 8 vessels during the summer season, as we guided on in the Capital Markets Day. And we took Ramform Sovereign into operation early March, or we mobilized her, rather, I should say, and steamed to a project early March. So operationally, we are progressing according to plan, but our revenues are somewhat higher.

And with that, I give the word to Gottfred.

Gottfred Langseth - *Petroleum Geo-Services ASA - CFO and EVP*

Thank you. I will start with a quick introduction on IFRS 15. We implemented this standard with effect 1st of January, as most of you will know. And this impacts the timing of revenue recognition for MultiClient prefunding revenues. Not a lot of other significant impacts. It also impacts the amortization relating to prefunding revenues. So under this standard, we now record prefunding revenues when the finally processed data are delivered with the customers. And the historical numbers have not been restated, just to be clear about that. We do continue to use percentage of completion for our internal management reporting purposes. And we disclose the management reporting numbers on same basis as earlier as what we called segment reporting information in this presentation and in the earnings release.

In the presentation and in the release, the comments that we make are applicable to both the reported IFRS numbers and the segment reporting numbers, unless explicitly stated. And so many of the numbers are similar for notes or captions and all revenues, except for prefunding, so it's on these items we need to differentiate. We hope to avoid confusing you too much around these things.

This quarter, the difference is small on revenues. But it could be quite substantial in individual quarters since under the IFRS 15 standard, you get the revenues in lumps when the service are completed, while the percentage of completion method will vary more in accordance with our activity levels and the prefunding rate we have on the project as we spend resources on. So it's important to be aware of this in future periods.

Then moving to the numbers. This is a summary of all the key financial numbers for the quarter. I will comment on most of these throughout the upcoming slides. So I will just give some high-level comments on the segment reporting numbers, which are at the bottom of this table.

The segment revenues for the first quarter, $197.8 million, is almost 30% increase from what we had in Q1 2017. The segment EBITDA is more than 3x what we had first quarter last year. And segment EBIT, which is excluding other charges, impairments and similar, we had no impairments in the first quarter and we had [the less] positive from all the charges, were $22.7 million loss.

The comparable or the IFRS revenue and EBIT numbers are shown at the top of the table, and you see that IFRS revenues are $201 million, which is only around $3 million different from -- and in this case, higher than the segment reporting numbers. The EBIT as reported is a loss of $7.3 million.

The difference there is primarily the difference in revenues and amortization costs, which is lower in the IFRS 15 than segment numbers. Enough on that.

The Q1 operational highlights. Total segment MultiClient revenues of $142 million, driven by generally higher MultiClient activity in the quarter; prefunding, 56 point -- $58.6 million. We had capitalized cash investments of $53.7 million in the quarter, so the prefunding revenues corresponded to 109% of the cash investments. Late sales of $83.5 million.

The marine contract sales revenues, $44.5 million, reflect the very challenging winter markets or winter season. Low prices, albeit somewhat higher than what we had Q1 last year.

This slide shows MultiClient sales since Q1 '14, split into quarters and also split into prefunding and late sales, with the late sales numbers being the gray part of the bar. Q1 is the continuance of the strong trend that we saw in Q4 last year. So that's good. And we had the best quarter in late sales this quarter since the fourth quarter 2014. And for being a first quarter, we need to look more than a decade back to find a similarly strong late sales quarter.

From the regional split of the segment MultiClient revenues, prefunding revenues were dominated by Brazil, West Africa and Europe. The late sales revenues were highest in Europe, Brazil and Mediterranean.

Key operational segment numbers. A lot of numbers in this table are commented on the first couple of lines already. Imaging external revenues are low in the quarter, $6.7 million, significantly lower than what we had in the quarters throughout last year, which reflect that it's challenging market but even more so the fact that we are applying more of our imaging resources to MultiClient projects instead of chasing external work.

Of the revenue line relate -- $4.6 million relates to an external development project that we managed for an international oil company on a reimbursable basis during the quarter.

Moving a bit further down to MultiClient amortization, $76 million in the quarter, corresponds to 54% of revenues, 54% amortization rate, lower than what we saw throughout last year, and it relates to higher late sales and the fact that amortization of finished library is done on a straight-line basis.

Vessel utilization, 67% active time in Q1, 29% stacked/standby, which is driven by the previous vessels that we have stacked -- warm stacked over the winter as well as some incurred idle time on PGS Apollo.

We now expect to use 60% of our 3D capacity for MultiClient for the full year 2018. That's an increase compared to what we said 3 months back.

We increased our estimate for the full year gross cash cost 2018 to approximately $600 million. The increase is driven by changes in FX rates, primarily the U.S. dollar being weaker against Norwegian kroner and the British pound; an increase of estimated fuel cost -- fuel prices, reflecting the higher oil price; and then higher activity and reimbursable cost projects. We have included in this slide a box reminding about the sensitivities we have relating to foreign exchange and fuel costs, which are relatively significant and will impact our cost numbers if there are significant market price changes.

The Q1 cash cost, sequentially down from Q4 but impacted by a net steaming charge in the quarter, approximately $5 million. This will be 0 over time. It's just anyway a moving cost between periods relating to activities. Some cost reductions realized gradually over the first quarter, reimbursable cost and project-driven costs. And lastly, some impact of FX rate changes and the increasing oil price. The run rate going forward will be lower than what we saw in this Q1.

So on the cash flow. Cash flow from operations, $73.4 million. That's an improvement over Q1 last year, primarily driven by better results. Working capital, relatively flat or actually slightly increasing in the quarter. The impact is a bit more is explained by the fact that we made $14 million of payments in the quarter of -- relating to severance and restructuring provisions that we made in Q4 last year.

Balance sheet. Liquidity reserve, $233 million. Net interest-bearing debt, $1,150,000,000. We have restated the balance -- the opening balance sheet in 2018 as a result of implementing IFRS 15. I will not run through the numbers, it's called (inaudible) net, higher book value on the library, lower equity revenues and higher deferred revenues on the liability side. Net effect to our shareholders' equity on the balance sheet is $75 million negative.

Moving to the total leverage ratio. We continue to see a substantial reduction in this quarter on the -- from leverage ratio, and we have a significant headroom to the required level. The ratio stood at 2.99:1 as of March 31, which is a reduction from 3.67, 3 months earlier on. With this trend, it may be needless to say that we do expect to be in compliance with the maintenance covenants going forward.

Summary of debt and drawing facilities. There are no significant changes. I will be short. The drawing of the RCF increased by $15 million in the quarter. At the same time, we repaid $13 million approximately on the export credit financing and the senior notes in accordance with the repayment schedule of those notes.

Rune Olav, I hand the call back to you.

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

Thank you. I will start by reviewing some of our streamer operations. On the picture, you see the world map and where our vessels are currently. Sanco Swift, on the top there, is currently mobilizing for a large MultiClient survey in the North Sea. The Ramform Tethys, which is seen there, is steaming to Las Palmas. It's there to restock fuel and supplies and will then go back to Brazil for our next MultiClient project there. Ramform Hyperion, on its way to Canada; and the Ramform Sterling currently in Angola will join the Hyperion for the Canada season this year. And that's what I thought I'd say on this slide.

On the market -- the seismic market outlook. We repeat that higher oil prices, improved cash flow among our oil companies and unsustainable reserve replacement ratios are expected to benefit our market fundamentals going forward. And we do see a strong MultiClient sales trend continuing from Q4 2017. However, it is still uncertain, both the strength and timing for the recovery in the contract market. And although we saw higher prices in Q1 '18 than we had in Q1 '17 and we expect higher pricing in the summer season this year than we had in Q1 '18 this quarter, it is still uncertain, the strength of this market and when that recovery will come. The coming winter season will be an important time for us to see what kind of pricing we can achieve over that period in this respect.

However, we do see some increases in both the leads and bidders on marine contract, so that is a positive development. But at the same time, we believe that this will fluctuate going forward. We think it's an increasing trend, but what I said, the strength of that trend is uncertain. We currently see the increase is primarily driven by Africa and Brazil.

And we expect that the volume of acquired 3D seismic in 2018 will be similar to the volume acquired in 2017. But with a lower fleet -- world fleet, we believe that utilization for the world fleet will be somewhat better.

The most positive part of the marine contract markets is clearly the 4D market. And we see that a need for improved production from existing fields leads to an increasing demand of 4Ds around the world; however, this year, dominated by the U.K., West Africa and Brazil, the most dominant or the most active markets, 4D markets in 2018.

This is a part of the market where our offering is particularly in demand as it's a premium market. Our clients require premium and quality seismic in these markets. And it is well served as we have our versatile Ramform fleets. We have multicomponent streamers on all our vessels. We have steerable sources and steerable streamers, which is necessary to repeat the service from earlier. And we have, obviously, unique GeoStreamer-based imaging technology, which we have developed for over 10 years now. And in the first quarter, we completed 4 4D jobs, which obviously helped our pricing in that quarter.

On the supply side, it's a repeat of what we said in the Capital Markets Day, where average streamer supply is down approximately 50% from the peak, and you see the flexible winter season and supply over the last years. Schlumberger's decision to exit the seismic markets has led to a reduction in the vessels availability for the market, and currently, we see none of their vessels operating. We expect 1 or 2 of their vessels to come back into the North Sea to do already awarded work. So it appears that Schlumberger is staying with their word and will not bid these vessels into the market. So obviously, this should help utilization for this year.

On the guidance, as we have said, gross cash cost, up to approximately $600 million. MultiClient cash investments, up to approximately $275 million and because -- that happens, obviously, because we plan to use 60% of our fleet now on MultiClient as we see stronger demand both for our library but also for new acquisition in the MultiClient space. And the opportunities we are able to generate gets good interest from our clients. CapEx, still at approximately $50 million.

So all in all, I'm very happy to see that the PGS organization is performing very well even though we have put the organization through significant changes, and this is the first quarter where we operated in the new organization. That has come from very solid MultiClient performance and in, particularly, MultiClient sales. And we see that the demand for the MultiClient library and prefunding is higher than what we see in the contract market.

So just to repeat that we are still uncertain on the timing and the strength of the recovery in the marine contract market, although we see somewhat of an encouraging increase in the bid pipeline for 2018.

So we have improved visibility for 2018. We are well on our way to achieving our main financial target for the year, which is to be cash flow positive after debt service.

And with that, I think we can take questions. Bård?

QUESTIONS AND ANSWERS

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

Yes. (inaudible)

Operator

(Operator Instructions)

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

Operator, we'll take questions from the audience in Oslo before we take questions from the conference call.

Unidentified Analyst

A question on the contract prices. You're saying that you expect more contract prices this summer than you had in Q1. Then how does that compare to the summer prices you had last year, 2017?

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

Yes. No, we have decided not to comment on that. We have very few contract price -- contract jobs basically lined up for the season. And we think we will stick with the guidance of it up from Q1, and then we'll see what happens, and we can comment on that when we get more into Q1 -- Q2 and Q3.

Unidentified Analyst

And -- because last year, there was quite a significant jump from a few contracts that you had last summer as well. You got good capacity there after Q3. (inaudible) with contract, will take less or longer time?

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

We're not -- sure, we both have a contract opportunity, which we are pursuing, and we have a MultiClient opportunity, which we are pursuing, so we'll see where it lands.

Unidentified Analyst

And you still have announced this project in Canada that you did have (inaudible) announced limited prices (inaudible).

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

It's in the booking but only limited -- to a limited degree in the backlog. So we have 2 vessels, which one of them is already steaming to Canada and the other one is -- will steam into Canada later for the season. So we are, as we speak, in a way signing up returning for that.

Unidentified Analyst

And finally, in Q4, there's very little capacity booked for Q4. Is that something which you worry about? Or is it a deliberate choice?

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

Well, I wouldn't say it's a deliberate choice, but there is plenty of opportunity -- leads and opportunities we are working on, anyway. So it is always worrying when you have small booking, but we're not that concerned as we feel that there is a proper leads basket for which we are pursuing. So we think it's more of a timing effect, but we'll see, obviously.

Unidentified Analyst

Was it very low (inaudible) in Q4 2017?

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

Yes.

Unidentified Analyst

How is it now compared -- for Q4 compared to a year ago? Is the vessel (inaudible)?

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

The booking is somewhat lower. I would say the work we are working on is better. We have a bigger pool of leads that we're working on.

Unidentified Analyst

And my very final question is regarding prefunding. And you don't guide explicitly on prefunding, which you have done in the last few years. (inaudible) would you expect (inaudible) you are increasing MultiClient investments (inaudible). Is that increasing the risk or (inaudible)?

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

Yes. I won't give a guidance of it, but it is clearly within our range. And we are not doing this to increase the risk that way. It is backed by industry prefunding. It's because we see demand for the services that we have chosen to do more prefunding -- do more MultiClient.

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

Are there 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 for the people on conference call?

Operator

So our first question now comes from Maria-Laura Adurno from Goldman Sachs.

Maria-Laura Adurno - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Just something which I wanted to check, which I heard right during the presentation. So you mentioned that there were no Schlumberger vessels at the moment on the market? Or is it more that they're not bidding on new projects? If you could just clarify that point for me, please.

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

Yes, they are not bidding for more work, and currently, we don't see any of them are in operation.

Maria-Laura Adurno - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Okay. That's very clear. And then the second question which I have is with respect to the pricing comments which you made during the presentation, I was wondering if maybe either you could provide some more qualitative comments there as to what are the areas which are -- where you're seeing those price increases and also maybe if you could quantify a bit of that.

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

Yes. Well, I'm not going to comment on the areas where we get higher pricing, but what I can say clearly is that the sales from our MultiClient library is very geographically spread. It comes from all elements of our library, and it comes from many, many companies. There are no big sales, to put it that way, in the quarter. So it's a general, healthy demand increase throughout the world, I would say, for the MultiClient services. In terms of contract, we see higher demand this year from West Africa. We see demand from Brazil, and the Asia Pacific market is still fairly weak, to kind of give you some guidance of where we see higher demand for our services and where we see lower demand for our services.

Maria-Laura Adurno - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Okay. That's very helpful. And maybe one last question. In terms of your positioning in -- both on East Africa and West Africa coast, any areas where you're particularly well positioned?

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

I think I would -- since -- for example, you can mention a country like Angola, which has large fleets and production where -- and where 4D -- streamer 4D is a particularly helpful tool, it's clear that we get the strong position in a country like that because our offering fits very well to the demand in that country. So that is a -- some -- a little bit of a data.

Operator

(Operator Instructions) So we'll move to our next question from [Diego Appo] from Citigroup.

Unidentified Analyst

I would like to know if you can elaborate a little bit more on the impact of WesternGeco withdrawal from the market, whether you think that having one less competitor is going to benefit to further the remaining players and whether this is already a play in Q1 '18?

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

Yes, I think it's clear that while they are sticking with their guidance of not bidding for further work, that will benefit everyone else bidding for work. Whether it has impacted us in Q1 is more of an uncertain question as most of the contract work done at least in Q1 has been bid before they made this announcement. But it should clearly impact the market positively over the remaining of the year. But it doesn't change my general statement of the marine contract market outlook, just to be clear.

Operator

Our next question comments from Christopher Møllerløkken from Carnegie.

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

You mentioned that the signing of the prefunding agreements had been later in the North Sea and in Canada this year versus last year. Has that been impacted in any way by Statoil's stated ambition that they would require less seismic this year versus last year? As I have seen, they are a key client in both basins.

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

No, I wouldn't say so. This is -- yes, it has affected much more than just Statoil, and I think it is related to individual different explanations for both Canada and for the North Sea and for the individual clients in question. So I wouldn't say that, that is something we have reflected on as a material cause for this.

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

The SG&A was quite a bit up in Q1 versus Q4. Was that related to the very high level of late sales achieved in the first quarter?

Gottfred Langseth - *Petroleum Geo-Services ASA - CFO and EVP*

If you read the footnote, it is primarily relating to a change, and I have to say, improvement in the classification within SG&A and cost of sales in a way. So as a result of the reorganization with the sales, all sales activities being joint up in one department and reviewed how costs are allocated between process engine, producing the services and selling and general and administrative. So the increase is due to a different classification, and you'll see that compared to all of the quarters in the past period. They're all in past periods.

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

You also mentioned that other revenues in first quarter was related to a project you did for an oil company. Could you guide us to when that project will be completed?

Gottfred Langseth - *Petroleum Geo-Services ASA - CFO and EVP*

It was completed late January.

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

Okay. And final question. As Q2 now is coming along, could you guide us on what level of vessel utilization you expect for this quarter?

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

We are fully booked for the quarter. We will operate 8 vessels, and obviously, we will experience some steaming as we are steaming to the North Sea and to Canada, but we are fully booked.

Operator

Our next question is from Morten Nystrøm from Nordea.

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

The first question is the new vessel program. If you could give us some intel on how many months that vessel will be there. And also, if you have any other projects scheduled in Brazil after the Canada season (inaudible).

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

Yes, we are -- the project we are on will continue for several months through the, more or less, entire summer season. I think with regard to future MultiClient project, we are careful in giving any comments to that as we always also have competitors listening in. So I don't think I will comment on that. But Brazil is clearly an interesting market for us, and we will continue to try to focus on getting new projects in that region.

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

And a question to Gottfred. I think you said when you talked about the costs that the costs will come down. I'm talking about the cash cost here. Cash cost will come down in Q2. Is this absolute or relatively given that you will have 2 more vessels operating in Q2?

Gottfred Langseth - *Petroleum Geo-Services ASA - CFO and EVP*

It's a dollar amount, so it's an absolute.

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

Okay. And the third question is if you could give an update on the potential divestments you talked about at the CMD, and also, potentially, the equity you own in different oil companies, if there's any progress there.

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

Sure. Yes, we are still -- we have a process ongoing to divest the MultiClient center in Cairo. That process is ongoing and not concluded. And we have -- or have also launched a process to see whether there are interests for buying our OptoSeis technology. And that is ongoing as well. So I can't comment on anything other than that, that we are working on that, as we said in the Capital Markets -- on the Capital Markets Day. It's not behind -- it's basically going according to our internal schedule. With respect to our ownership in Azimuth and their ownership in other -- in oil companies, I don't think we have any updates to give. It's going on along according to plan. I'm done.

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

Operator, are there any more questions from the people on the conference call?

Operator

We will now move to our next question, and it's from Sahar Islam from UBS.

Sahar Islam - *UBS Investment Bank, Research Division - Analyst*

I have 2, if that's okay, please. So firstly, on the increased leads and better time conversations you mentioned, I wondered if you could give us a bit more color. Is this coming from the IOCs? Or are we seeing a pickup in prospective activity from the independents as well? And are there any particular geographic areas that clients are focusing on apart from the ones you've already mentioned, like Brazil?

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

I think leads -- I mean, the IOCs are still a very important client. They are still the main driver of new seismic acquisition. But it is also clear that with this increasing oil price and increasing cash flow coming in through the next tier of oil companies around the world, we do see increasing interest from this level as well. That's absolutely clear. That is a trend over the last 0.5 year, I would say. In terms of areas, I mean, West Africa has really been very active. And we and others in the industry have had vessels more or less in every country along the coastline of West Africa from north to south, so that has been a very active market. Brazil, yes. Canada for us will still be, as you understand, an active -- we'll have a good season in Canada with 2 3D vessel and also actually a 2D vessel in Canada this year. So yes, and as I mentioned, Asia Pacific is -- there is activity in Asia Pacific, but I must say compared to some of the other stronger market, that is relatively weaker.

Sahar Islam - *UBS Investment Bank, Research Division - Analyst*

And then just two related questions on how we should think about cash flow if activity hopefully continues to pick up as it has done, at some point, will you have to increase your CapEx guidance if activity continues to pick up as it has, particularly on the streamer side? So I think at the Capital

Markets Day, you said you wouldn't need to buy any new ones at least for the next year. And on the cost savings plan, I appreciate costs have gone up because of factors out of your control like fuel prices, but would you reconsider the operational cost cut you outlined if activity picks up, i.e. do you need to cut as much?

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

We don't expect any increase in CapEx this year regardless of activity increase. If we were to do that, I will be introducing a second -- or call it ninth vessel to the market. That would need another streamer set. Then we would need to see continued strong demand. So that is unlikely to impact 2018 CapEx, I would say. In terms of your other question, if activity picks up, we will not reverse what we have done operational -- overall operational changes. But in an activity, pick up more sales, for example, there are some costs that comes with that. So if we should see a very -- much stronger demand going forward and stronger revenues, it will have a slight impact on the cost base, that's clear, just as higher activity does result in somewhat higher cost. But it's not -- we will not reverse the cost savings we have had last year.

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

Any more questions on the conference call, operator?

Operator

We're now taking a question from Lillian Starke.

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

I had a question regarding how will you account for IFRS 15 for the revenue that you booked in prefunding in fourth quarter or throughout 2017, that they were in the preprocessing phase. How would you treat them once they are delivered? Should we see -- will there be any adjustment? Or you've sort of already booked that in 2017 and, therefore, upon delivery, they shouldn't flow through in 2018 or whenever they're delivered. Just to understand how will that impact your revenue going forward.

Gottfred Langseth - *Petroleum Geo-Services ASA - CFO and EVP*

I will make it very, very short, and then we can follow up if it isn't clear. At the date of implementing this standard, we adjusted the balance sheet to add back all the recognized revenues and booked those as deferred revenues. (inaudible) amortization and similar were also backed up. The starting balance sheet is prepared as if no revenues had been recognized on any on the work in progress surveys, and no amortization had been made as of that date. So when we deliver this survey in 2018, all of the prefunding revenues will be recorded at that date regardless of the fact that some of those revenues would have been reported in 2017. So that's the way to think of it. And then you can argue, is this double counting or what is it. But this is the way. And we focus on performance on the segment reporting numbers predominantly. So what will happen in (inaudible) that we will report revenues at delivery on activities primarily happening a year or so before. At the same time, the -- all the activities during the quarter on new surveys and the new contracts doesn't generate any revenues but will hit the revenues in approximately a year from now. So the matching is quite difficult. I'll stop there.

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

Okay. Yes, perfect. And then If I could follow on just on this level of deferred revenues. How much of that do you expect -- or could be scheduled to take place in 2018 versus '19 or onwards?

Gottfred Langseth - *Petroleum Geo-Services ASA - CFO and EVP*

I don't have that estimate in the top of my head. In the slides and in the financial statements, you will see how much we have reduced accrued revenues and increased deferred revenues, and it is likely that a majority of that will hit 2018. But some of it may hit 2019.

Operator

(Operator Instructions) And we have no further questions at this stage. So I'll turn the conference back to you for any additional remarks. Thank you.

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

Thank you. I think we have -- okay. And we don't have any more questions from the audience in Oslo either. That concludes this presentation. So thank you all for coming, and thank you all for dialing into the conference, and have a nice day.
