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PGS.OL - Q1 2016 Petroleum Geo Services ASA Earnings Call (Morning)

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CORPORATE PARTICIPANTS

Bard Stenberg *Petroleum Geo Services ASA - VP IR & Corporate Communication*

Jon Erik Reinhardsen *Petroleum Geo Services ASA - President & CEO*

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

CONFERENCE CALL PARTICIPANTS

Frederik Lunde *Carnegie - Analyst*

Rahul Bhat *JPMorgan - Analyst*

Teodor Nilsen *Swedbank - Analyst*

PRESENTATION

Bard Stenberg - *Petroleum Geo Services ASA - VP IR & Corporate Communication*

Good morning and welcome to this presentation of PGS Q1 2016 results. My name is Bard Stenberg, Vice President of IR and Corporate Communication at PGS.

The presentation is being run in parallel with the conference call. And those on the conference call will also be able to ask questions in the Q&A session after the presentation. There will also be a conference call this afternoon at 3pm CET, 5am Eastern Time.

(Conference Instructions).

I would also like to draw your attention to the cautionary statement showing on the screen and also are available on the or in the Q3 earnings release and the Q3 -- Q1 earnings release and Q1 presentation on our webpage.

And with that, it's my pleasure to give the floor to you, Jon Erik.

Jon Erik Reinhardsen - *Petroleum Geo Services ASA - President & CEO*

Thank you, Bard, and good morning, everyone. I will characterize this first quarter with four main points. Number one, from a vessel operations point of view the quarter is very strong, in fact one of the best quarters we've ever had. That also includes the deliveries on cost reductions that we continue to chase and continue to deliver on.

Secondly, on the weak side, the market is weak and has been particularly weak in the first quarter. This has impacted bid activity to some extent sales in multi-client to some extent, which we have seen across the board among our peers.

Thirdly, we have taken delivery of another Ramform Titan-class new build, which is changing the game in this industry over time, with a new generation of ultra-high-end vessels when it comes to productivity and other operating parameters.

And fourth, we have this quarter again invested multi-client library in our associated company Azimuth. And I'll come to back further in the second part of my presentation to explain how we think about that and what the particular quarter carries.

All of these factors in mind, the EBITDA ended at $78.6m, total multi-client revenues of $125.2m, a pre-funding level robust at 124% and a liquidity reserve close to $500m.

In this market we focus on what we can influence, which is what you see in the box at the bottom of the slide. Obviously relentless sales efforts, operations, cost and cash flow discipline. And we will come back to all of these as we work our way through today's presentation.

Moving to the next slide, it's just a graph of the financials. And it's easy to see that revenue line is impacted by the weaker market. And of course that gets an effect on the other parameters further down in the reporting lines. Gottfred will of course come back to this in more detail as we usually do.

And then a final slide from me initially. Order book at $204m is down from the previous three quarters. We saw a lower award rate in the first quarter and we think that has been an impact by cautious behavior among our clients given the extremely low oil price we had at a good part of that quarter. We have however seen improvements in April, offsetting this declining trend. So as we speak and April the vessel booking looks pretty okay for the coming two quarters, 95% booked for this quarter, 80% for the third quarter. And we are now of course focus -- shifting focus and booking for the fourth quarter, where we sit at 10% at the moment.

And with that, I hand over to Gottfred Langseth for a walkthrough of the financials.

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

Thank you and good morning. I will start with my usual first slide on the consolidated P&L. We had revenues of $203m in the quarter. That's a reduction of 19% compared to Q1 2015. EBITDA ended at $78.6m. That's a reduction of 38%. Operating loss for the quarter, $30.2m. And lastly on this slide, we had a relatively large negative on net financial items, a cost of $30.5m, which was impacted by charging to expense the exploration expenses in the associated company Azimuth Limited, where we have a 45% interest.

On slide 8, total multi-client revenues of $105.2m (sic - see slide 8 "$125.2m"). Pre-funding was $59.9m, corresponding to a pre-funding rate of 124%. Late sales, $65.3m. Marine contract revenues, $59.2m, negatively impacted by weak pricing, partly offset by good vessel operations. We used around 75% of our active capacity for contracts in the first quarter. And the weaker EBITDA margin in our reported numbers in Q1 is partly due to the higher share of contract activity, which, with the current pricing, do not contribute meaningfully to our EBITDA number.

Multi-client revenues by region. I'll be quick on this one. Multi-client pre-funding driven by projects in South America and Africa, primarily with respect to late sales. All regions except Middle East and North America contributed reasonably well.

Multi-client vintage distribution, that's slide number 10. Reasonable sales progress, as you can see from the slide for completed surveys vintage 2011 through 2015. Moderate net book values for these surveys. And the total book value of the library at quarter end, $692.8m, is slightly down compared to the start of the year. We had an amortization rate of 54% in the first quarter. And we still expect an amortization expense relating to the library of around $300m for the full year.

Lots of numbers on the key operational numbers slide. I will make one comment since most of the other items are commented already or will be so later, and that is to point to the operating cost line in this slide. The operating cost charged to the P&L, $124.6m in the quarter, is an increase from earlier quarters. This is due to significantly less capitalized as investment to the multi-client library. So despite the cost reduction, the effect of capitalizing less to the library increases the cost charged to expense, as it should.

Vessel utilization, high utilization in the first quarter, 90% active time. Most of that active time, as said, was used for contracts in Q1. The same will be the case for Q2, where more than two-thirds of 3D active time will be used for contracts. For the full year we expect a more even balance, with multi-client accounting for slightly less than 50% of the active capacity also. So implicitly we will have more multi-client in the second half of the year compared to what we have in the first half of 2016.

Then moving on to cost, our gross cash cost is continuing to come down, as you can see from this slide. The Q1 cost number includes $11.5m approximately of costs relating to vessels that were not operated in the quarter, i.e. vessels that have not yet start -- commenced operations or vessels that were in the process of stacking or were already stacked at the beginning of the quarter. So it primarily includes the charter and other expenses for the Sanco Sword and Sanco Swift, the costs to stack and [send] Nordic Explorer, which we did in the quarter, and some payment cost on the back of stacking four vessels in Q4 2015.

Looking to second quarter or next quarter, the absolute cost number is expected to be more or less in line with what we had in Q1, despite the fact that we have two vessels that commence operation now in the first part of Q2, Ramform Tethys and Sanco Swift.

One more slide on cost. After substantial cost reductions in 2015, cost is further down in 2016 to end at approximately $715m as gross cash cost for the full year. This corresponds to a net reduction of around $120m or, if we adjust for the fact that there are restructuring costs in the 2015 numbers and clear that out of the calculation, it's an $80m cash cost reduction with respect to ongoing costs.

We have significant flexibility in our cost base. And the 2016 cost of $715m is a reduction of more than 35% compared to the $1,112m of cost we had only two years back in 2014. So it's a substantial reduction. Cost obviously is extremely high on our agenda and there is potential for further cost reductions.

Cash flow. Cash from operations, $133m, benefited from improvement of working capital, which is fairly difficult for the first quarter. CapEx relatively high in the quarter, primarily due to taking delivery of Ramform Tethys. So we had $96.4m on new-build CapEx in the first quarter.

You will see from our earnings release that the cash CapEx for the vessel Tethys ended at $265m. That's quite a bit down from our initial guidance. And that has to do with reuse of seismic equipment from the vessels we stacked last fall. And we will see a similar cash CapEx reduction for Ramform Hyperion.

Other investments in the quarter include $74.1m invested in the associated company Azimuth.

Balance sheet. We had a liquidity reserve at quarter end of close to $0.5b, $496.6m. Net interest-bearing debt increased during the first quarter compared to the start of the year, primarily due to the delivery of Ramform Tethys, where the last yard payment was paid or drawn on the export credit facilities. We have remaining export or unused export credit facilities of $129m, which covers the remaining yard CapEx for Ramform Hyperion, the last vessel.

Then to our debt structure. Not so much change. We increased the drawing on the revolving facility during the first quarter. We also increased our cash balance in the quarter. And most importantly there has been quite a bit of focus on the risk of breaching covenants relating to the RCF in future periods. In that respect we have a good dialogue with our banks and we have initiated a process to increase headroom under the maintenance covenant. We expect to complete that during the second quarter.

That is my final comment for now. And then I'll give the podium back to you, Jon Erik.

Jon Erik Reinhardsen - *Petroleum Geo Services ASA - President & CEO*

Thank you, Gottfred. As usual, I will share some reflections around the market and our operations. So I'm starting a little bit out at a bigger picture. This is a slide that we started to use back last year, when we picked it up from Statoil and Shell. And it's basically a generic slide showing the gap that is emerging between the still increase in global demand and the decline in underlying production. And I think what happened over the last year is clearly what you see in the heading, that we see now the market tightening, starting to play out as we see more and more of the analysts now summing up the numbers.

And of course, that is a good early sign even though it will take time for that to play out, for there to be money available for our customers to again spend on seismic.

Going then in closer to our segment, there is not a lot of change in terms of what we expect from the marine seismic market this year. We still expect around 300,000 squares to be acquired, which, on the good side, is compatible to what we saw back in 2008 and 2009. On the other hand, we're talking about a very different fleet when it comes to productivity, number of streamers on average. And obviously there is a different mix when it comes to multi-client and therefore not fully comparable parameters.

The challenge still we have is not that there is a volume to work with, because there actually is if you look at this curve. But we have embarked on a journey to add too much capacity to this industry. Even though we now see that the capacity has come down roughly 50% over the last couple of years, we still see the need for some further improvement in the balance to be able to increase pricing.

Having said that, and if you look across the industry, what we expect for the first half and maybe even through Q3 this year compared to last year, there is much less idle time this year than last year, which means we have a much tighter market. And in particular in Q2/Q3 it is relatively balanced. But then we expect that to shift back somewhat when we come into Q4. So we are closer, just observing the statistics of idle time; but we are not there yet is the bigger picture.

When we look at the market activity, the curves we show here are becoming less and less as good indicators, because it's the contract activity we show and the contract activity is becoming a smaller and smaller part of the total market. But still, they represent an indicator of fleet activity and what leads we see and the trend is still not turning.

And still the demand that we have is driven by positioning for license rounds, where oil companies would like to be irrespective of where they are in the cycle, with a longer-term view in mind. Obviously on the back of that what they have to do, having been awarded blocks, in terms of seismic commitments. And those two today represent more than 75% of the demand. And then there is still some production seismic and there is still some opportunistic spending, where we see some surveys being extended due to the very favorable pricing we have in the current market.

I mentioned a decent industry capacity utilization in Q2/Q3. And I also mentioned initially that we did see the oil price weakness in the first half of Q1 causing a more cautious attitude among oil companies. And if you look across the multi-client sales now being reported, it is clearly a weak quarter we have behind us. And we also have on our parts seen that has impacted also the activity when it comes to contract awards.

Operations. We have two vessels that have started operations in the North Sea. We have three more to come. You see Ramform Sterling on the way on the map. Tethys is going through Suez these days on the way to North Sea activity. And finally, Ramform Titan will also move up to the North Sea for work during this summer season. So we see a relatively active North Sea season, quite a lot multi-client, but also a couple of -- could be more than a couple of contracts, primarily for the monitoring-type work.

So one slide or two slides, or maybe even three on the fleet. Tethys is delivered. The last two, Tethys and Hyperion, have an upgrade built in compared to the first two Titans, improvements on the equipment handling to make them even more efficient, and also further increased engine power to be able to tow even bigger spreads.

These vessels are all about productivity, safety, stability and give us an opportunity to operate in more marginal weather in a safe way. And of course they contribute to giving us the youngest and most productive fleet in the industry. And we believe that these four Titan classes are setting a new standard for seismic operations for the next 25 years.

The way we think about the fleet we have talked about earlier. This downturn which has been deeper and tougher than what we had anticipated, we are down to operating seven vessels. And we think in going forward that a core fleet owned of six is what we will spend our own capital on. And for the rest, we will going forward look at more chartered-in capacity to take the market fluctuations. And currently we have these three vessels on charter, Swift, Sword and Apollo, and where we try then after the commitment period to stage with options at various points where we can exit the charters if the market at that time should demand that.

Now currently we still have soon five stacked vessels of good quality, well maintained, that we can phase back into the market as the market improves, subject to taking investments in streamers for these vessels. So going forward we have a significantly lower requirement for CapEx than what you have seen when you look in the mirror for the last eight, nine years, given this fleet strategy and given the pool of well-maintained Ramform vessels that we have an option to bring back in the market.

Then I would also this time like to include a slide on continuous improvements. It's easy to think when the market is bad, we cut on everything. Operations start to make hiccups and we get trouble. We have great crews, great vessel managers, great operations management and we continue our journey on continuous improvement. And this quarter is one of the best we've ever had. And you see that from the statistics both when it comes to total downtime, when it comes to performance, and not the least when it comes to safety.

So we are able, through our focus on planning and risk mitigation, to continue to improve our operations also in this environment. There is no compromise to safety despite the significant cost cuttings we are making. This is where we build sustainable value for the Company and this is a leading practice obviously in our sector.

So a couple of words on Azimuth which is our associated company. As you heard, we own 45% of Azimuth. We were part of giving birth to Azimuth, and I'll come back in a little bit to that. Azimuth's portfolio today is a relatively significant position in the Norwegian North Sea with 21 licenses, a position on the UK side, an Irish position, a very significant position in Namibia. Azimuth is the -- a partner of the biggest acreage holder in Namibia, which is quite interesting, and we've seen a lot of -- Azimuth have seen a lot of increased interest for Namibia over the last couple of years. And then there is a relatively new position gained in Latin America, actually some of the old OGX licenses that Azimuth has taken over, and also in Asia Pacific.

Azimuth is funded primarily from a private equity group called Seacrest Capital, who again has their investors coming in from predominantly large US funds. And despite the fact that the market is challenging, that the oil price is low, they continued to grow the portfolio. They continue to be able to raise funds to grow the company.

So what is PGS's role in this? For us this is about driving further value from the multi-client library. So we have the classical multi-client library sales. We invest in surveys. We get pre-funding and we get late sales. And that's it. But since 2011 we have explored the idea of getting or investing library for equity. And we -- it started with oil companies coming to us and saying we cannot afford to pay. We would like to grow. We would like to have equity. And we have been then awarded acreage or positions or shares in companies on the back of that.

That is not something we would like to hold and sit with it, defocusing PGS. So we had to find an instrument where others could take care of that for us and could have a focused operation that didn't disturb our operations. And that's how Azimuth came along. So we gave birth to Azimuth together with Seacrest, where we took the backseat. We didn't want to have to focus on having anything to disturb our operations. That was their role to manage and grow Azimuth, while we invest in Azimuth primarily through putting in library, sometimes with services, and thereby creating future value without really spending cash. And that's important.

So this is not a crazy adventure where we throw cash out of the window in the hope of getting something. This is a very deliberate move to create additional value from the library by investing library in Azimuth.

Azimuth is currently acting countercyclical, and you see that from what they have taken of library this quarter. And over time our investment in Azimuth has largely been cash-neutral, which means all the investments we made have been matched with purchases of library primarily and some services bought.

The structure here is, and that's an important learning from the history of PGS, we have a right to invest to maintain our share of 45%, but we have no obligation. So this is never going to be something that will force us to put money out in a situation where we couldn't afford to do it. It's an option we have. And, for the main part, as I said, we match that with delivery of library. In reality then, we invest cash and we get revenues back from the sale.

For the first quarter the investment is $74.1m. That is a bit of a future outlook in the sense that we have invested what we believe is efficient to maintain our share of 45% for the next couple of years. And then that continues to come in. And there is already committed funds for the next period, similarly from the investors that Seacrest has backing them up.

And when it comes to the revenues, and this is several transactions, not only one big coming from Azimuth, we report this quarter $56m in the multi-client space. $37m is late sales. And the remaining $19m is actually on projects that have been acquisition, where Azimuth is a partner with other operators.

Important also at the bottom there, all Azimuth sales are done at arm's length. We don't dictate Azimuth, say now you have to buy something from us or here is the price. Actually the investors coming in on the other side are the ones, through Seacrest, negotiating with us to make sure the price is the right price in the market and is done at the right time for the Company. But this investment in library from Azimuth is part of their countercyclical move to position Azimuth for the upturn that we see.

There is true alignment between us and the other investors in Azimuth through Seacrest in terms of we see this as an investment period in these different assets over five to seven years and then with a clear exit strategy to cash back on what we invest in. So that's how we intend to bring the return out of these library sales back to PGS.

And obviously since the investors continue to commit money, they see value in what we have created. And all the valuations that have been done continuously indicate a good premium already from what has been put in here.

So finally to the guidance. We have reduced guidance for cash cost and CapEx since the previous quarter, and this is part of Gottfred mentioned. We are continuing to chase costs, chase CapEx to stay as lean as possible. So the gross cash cost of -- as we see it now for the year is $715m, which is down from $725m; multi-client investments of approximately $230m, which is down from $250m; and CapEx of approximately $225m, down from $250m. And part of that is driven by less new-build CapEx and you also saw that Ramform Tethys came in below our earlier indications. Most of that is driven by the fact that we're able to use equipment from the stacked vessels on the new builds.

Then in conclusion, we still see ourselves and continue to improve the position of being [ideally] positioned in this challenging environment. Utilization has been strong. Multi-client is, in light of market conditions, relatively robust. And I think Azimuth or not, it's still relatively robust compared to peers in the first quarter. We are continuing to improve our fleet capabilities. Liquidity reserve is still robust. And as Gottfred said, we are now in the process where we are in dialog with our banks to increase the headroom under the revolving credit facilities maintenance covenants.

And with that, I hand over to Bard to lead us to the questions.

QUESTIONS AND ANSWERS

Bard Stenberg - *Petroleum Geo Services ASA - VP IR & Corporate Communication*

Thank you, Jon Erik. If we can start the questions then, ladies and gents.

Unidentified Audience Member

Yes. Good morning. It's (inaudible) from ABG. A couple of questions on Azimuth. How much cash have you invested in Azimuth now accumulated, apart from multi-client?

Jon Erik Reinhardsen - *Petroleum Geo Services ASA - President & CEO*

It's a very, very small number. What would you say Gottfred? Is it 10ish or something like that?

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

The net of our accumulated investments and our in-kind contributions is that the in-kind contributions exceed the investment by $2m or $3m. So it's pretty even. The accumulated investment, it was --.

Jon Erik Reinhardsen - *Petroleum Geo Services ASA - President & CEO*

It was share of cash I think John was after.

Unidentified Audience Member

Yes how much cash have you put in there?

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

Accumulated?

Unidentified Audience Member

Yes.

Jon Erik Reinhardsen - *Petroleum Geo Services ASA - President & CEO*

Ex library.

Unidentified Audience Member

You put in some $70m this quarter, $74.1m this quarter. How much -- what's the accumulated number? How much cash have you invested?

Jon Erik Reinhardsen - *Petroleum Geo Services ASA - President & CEO*

The question is not correct because we have not invested $70m cash. We have taken revenues for multi-client library as payment for that. Do you see? So over time there is no cash. It is cash-neutral.

Unidentified Audience Member

But if you did put in the cash then you would still have had the phase two assets, can we say?

Jon Erik Reinhardsen - *Petroleum Geo Services ASA - President & CEO*

No. That's the whole point. So this is additional sales that we wouldn't have had if we didn't have the collaboration with Azimuth.

Unidentified Audience Member

Okay. So in net, how much are the (inaudible), ex the multi-client then?

Jon Erik Reinhardsen - *Petroleum Geo Services ASA - President & CEO*

I would guess, I don't have that number, $10m, $15m or something like that over time.

Unidentified Audience Member

So it's not too big, but it's still a fair amount of it.

Jon Erik Reinhardsen - *Petroleum Geo Services ASA - President & CEO*

That's why we think this is a unique and very important business model for us that would create value, because it is additional sales from library we would not have done without Azimuth. And we have found a match of valuable library that they -- as they see it, that we can contribute with here. And there is cash matching it so the other investor sees the value of this.

Unidentified Audience Member

[When compared] to Azimuth, so far they've hardly done -- have they done any drilling at all?

Jon Erik Reinhardsen - *Petroleum Geo Services ASA - President & CEO*

They have participated in some wells in the North Sea that has not come in, and that's why you have seen exploration expenses on some of our quarters going back because of that.

Unidentified Audience Member

So typically you see from the [NPs with] a lot of licenses. The cash drain is becoming really big once they start drilling. Given all the amount of licenses that Azimuth has, at some point they will have to start to become -- have to commit significant amounts in drilling. That's where the cash needs really become big. Are you going to get some time when you -- when we're going to see those kind of [commitment crisis]?

Jon Erik Reinhardsen - *Petroleum Geo Services ASA - President & CEO*

I don't have that here. Remember we have an option to invest; we don't have to invest if there's a big cash need. Some of these positions the strategy is to sell before drilling. Some of these positions we have been as part of some wells here in the North Sea. But this is a company that has a very early exploratory focus and to do this development and sale as we go. And to be honest, even in this environment they have interest from relatively large oil companies for some of these positions due to the effectiveness of the positions they've taken.

But it remains to be seen. The point is we have invested in this without a huge cash investment from our side. And we think there is significant upside here, and so does the investors that is putting in a lot of hard cash in this.

Unidentified Audience Member

Another [job] is certainly with the banks to relax the covenant. Did you discuss with the banks before you did this transaction with Azimuth and also the Polarcus transaction?

Jon Erik Reinhardsen - *Petroleum Geo Services ASA - President & CEO*

No we did not.

Unidentified Audience Member

Have they commented on these [effects]?

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

I don't think it has commented on that particular issue. As I said, we have a good dialog with the bank. And a dialog, we discuss the business. And it's obviously part of our business. So I think I need to limit my answer to that.

Unidentified Audience Member

And you said you hope to conclude the discussions with the bank (inaudible) Q2. Any indication of what they would demand in return? Is it just a one-off fee or is there a risk of equity need?

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

We are not in a position to share details of the proposal or likely outcome at this stage. We have to wait until that is concluded.

Bard Stenberg - *Petroleum Geo Services ASA - VP IR & Corporate Communication*

I think we'll leave room for other questions and we'll come back afterwards.

Frederik Lunde - *Carnegie - Analyst*

Hi. Frederik Lunde, Carnegie. I just (inaudible). If you look at sales-to-investment ratio, does your multi-client cash investment include (inaudible)? Is that a representative number?

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

No, it does not include -- we haven't quoted our sales-to-investment ratio in any of our numbers in the release or presentation today. We have quoted the revenues and we have disclosed the investment. So that's for anyone to calculate. And we would normally calculate that at the total revenues from multi-client divided by the cash investment in the multi-client library, which does not include the investment in Azimuth.

Frederik Lunde - *Carnegie - Analyst*

But in historical performance (inaudible), you should adjust for Azimuth then to make sure the real number --?

Jon Erik Reinhardsen - *Petroleum Geo Services ASA - President & CEO*

It depends on your historical timeline because then you have to wait until these assets are sold basically before you can conclude. Right?

Frederik Lunde - *Carnegie - Analyst*

Yes. [Commercial] services are looking (inaudible). Are they reflected in pricing or it's just [utilization here]?

Jon Erik Reinhardsen - *Petroleum Geo Services ASA - President & CEO*

As I said, we have not seen a pricing impact now in Q2/Q3. We're just seeing that we are relatively tight on the balance now in Q2/Q3, which means that us and others have turned down work because we were happy to get other things to fill in and then that goes to another player in the bidding field, which is a situation we did not have last year at this time. But there is no pricing impact on that.

Frederik Lunde - *Carnegie - Analyst*

And just one question from me. You invested in Polarcus last year. You haven't commented on the purpose of that [for your additions]. Is that something we should think about as history now or is there a future or clear plan for Polarcus? And on the whole, how do you view that in the context of the asset divestment and also your bond and the quite depressed pricing there (inaudible)? It seems like you've taken out part of this risk without (inaudible) pretty good on the balance sheet.

Jon Erik Reinhardsen - *Petroleum Geo Services ASA - President & CEO*

To take Azimuth first, as I explain now, we're not carrying risk in a significant way. This is library for equity we're talking about.

When it comes to the Polarcus question, we have no further comments than we've given before. It's not to be considered as a sister. There are competition reasons for that. There are influence reasons for that obviously. So it is what it is and what we have communicated.

And then when it comes to the bonds, as we have communicated earlier, our first priority on financing is to relate to the RCF banks and deal with that and then we see what's coming after that. And as we have communicated now, which is prudent, we have started that process with the banks. And as always we are communicating when we have things to disclose.

Frederik Lunde - *Carnegie - Analyst*

Thanks.

Unidentified Audience Member

(Inaudible). Does the date that you entered in Azimuth, do they become proprietary, like [with them] for Azimuth, or are you free to sell them?

Jon Erik Reinhardsen - *Petroleum Geo Services ASA - President & CEO*

This is library data as for any other oil company basically that -- they have a right to use them and we have a right to sell them to others. And other companies have the same data. It does not become proprietary for Azimuth. This is all -- these are all multi-client licenses, which is paying for a right to use the data.

Unidentified Audience Member

Okay. And the transfer price here, is that equivalent to book value of the library data?

Jon Erik Reinhardsen - *Petroleum Geo Services ASA - President & CEO*

This is -- well the price is a result of negotiations. And you see that our [occupation] rate for the quarter is quite normal. So we can't comment on this specifically relating to book value. Some libraries, they have no book value or this may be relatively recent. I think it's fair to say that in the credit market they get a reasonably good price, which is the same as any other oil company would do if they came to us and wanted to buy some significant volume of multi-client data.

Bard Stenberg - *Petroleum Geo Services ASA - VP IR & Corporate Communication*

Okay. If there's no further questions from the audience here in Oslo, operator, maybe you can help us with the Q&A session for the people on the conference call.

Operator

(Operator Instructions).

Unidentified Participant

Hi. Good morning, gentlemen. Thanks for taking my question. Can you just comment on what's happening in terms of pricing in the acquisitions market? Clearly you had a lot bigger exposure. Are you seeing any movements there? And where do we stand in terms of market rate in terms of relation to cash margin? Are we still trending at around that level in terms of cash breakeven?

And my second question on multi-client, can you just comment on where the pre-funding rates were the highest in terms of geography and the relation of Azimuth to the rest of your sales? Thank you.

Jon Erik Reinhardsen - *Petroleum Geo Services ASA - President & CEO*

Yes. On the contract side, the trailing rate is roughly cash breakeven, which I think you will hear from most of the players. And as Gottfred said, in this quarter, second quarter, we have a relatively high contract utilization which then impacts the overall EBITDA for these two quarters. We see that shifting when we come into the third quarter with the plans now we have for North Sea activity.

When it comes to pre-funding, as we said, the pre-funding comes mainly in the first quarter from Brazil and Africa. Yes, it is Brazil but we said South America. And the Brazilian part is what has brought most of the pre-funding.

As such, relation to Azimuth and the pre-funding, if I understand your question correct, is that after actually we signed up for these surveys in Brazil, Azimuth became a partner in some of these surveys. So there is some revenue that actually comes from Azimuth as a buyer of pre-funded data. But it was not caused by them buying data from us to find a license. Actually they become owners or partners on some of the blocks after the fact that we had the commitment to do the survey from the operator. So that's a chunk of these pre-funding revenues to Azimuth that you find in the quarter.

Unidentified Participant

Sorry, just to follow up on that. I'm just wondering, from the industry side, have things deteriorated further beyond when you've commented about 100% pre-funding? I'm just wondering ex-Azimuth, is that still the state of affairs or if Azimuth was there 100% would it be difficult to achieve?

Jon Erik Reinhardsen - *Petroleum Geo Services ASA - President & CEO*

We guided 100% pre-funding for the year before we knew about this Azimuth transaction, if you follow. That's still the view as we look through the year. But we see that there is obviously risk with that going forward. We see a lot of our peers talking about challenges to get pre-funding and we see that too. But so far we have been able to secure pre-funding to the level that we have been guiding at.

Unidentified Participant

Thank you.

Operator

(Operator Instructions).

Rahul Bhat Hi. Good morning, gentlemen. This is Rahul Bhat from JPMorgan. Just a couple of questions from me. On the contract work, as far as I could see, I could not see an EBIT margin for the contract work which you usually give. Could you please elaborate on that?

And on -- if hypothetically we look into, say, Q4 2016, if you decide that the market is considerably weak and you want to take another vessel out of the market, then what would be the cost? And would it be one of the chartered vessels or would it be one of your owned vessels?

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

We have not disclosed the EBIT -- contract EBIT margin for the quarter. But we have said that the first quarter reflects close to EBITA breakeven. So it's possible to make a little bit of math out of that.

Should we, due to market developments, decide to stack more capacity, the typical costs relating to the effort of, just after completing a large survey, preparing, derigging the vessel and putting it to [COPEC] typically up to around $3m as a one-off cost. The cost saving on stacking a vessel is close to $10m of operating costs per quarter. And the cost of keeping a vessel stacked after the stacking exercise is completed is between $1,000 to $2,000 a day.

I cannot comment on which -- if this were to happen, which vessel that would -- that we would stack. I think that it's hypothetical.

Rahul Bhat - *JPMorgan - Analyst*

Okay. Thank you. And just one follow-up, if I may. On the multi-client sales, if you look at it ex-Azimuth, then it was reasonably weak. How do you expect -- do you expect this to improve going forward? You said April things have improved slightly. So does that mean going forward you're more confident on this asset deal?

Jon Erik Reinhardsen - *Petroleum Geo Services ASA - President & CEO*

I think you've seen from all the players that have reported now that Q1 was a weak quarter in multi-client sales. Actually if you were to just deduct all of the Azimuth revenues, which I think is a bit hypothetical, we're still at north of $70m, which would still be roughly where the best players are in this first quarter. But I think for everybody, first quarter is weak and then we have to see how the remaining quarters develop.

There is a lot of risk out there and there's a lot of caution when it comes to spending. And we just have to take a sale at a time and a quarter at a time as we move forward. Our focus is obviously cost, making sure we have the leanest possible position and to harvest as much as possible from this library.

Rahul Bhat - *JPMorgan - Analyst*

Thank you.

Jon Erik Reinhardsen - *Petroleum Geo Services ASA - President & CEO*

Okay.

Operator

(Operator Instructions).

Teodor Nilsen - *Swedbank - Analyst*

Good morning. Thanks for taking my question. This is Teodor Nilsen from Swedbank. You mentioned that you have very low maintenance CapEx going forward after the delivery of Hyperion. Is it possible to provide any broad-range CapEx guidance for maintenance CapEx in 2017?

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

I'm just checking if I may give an indication there. That depends ultimately on plans. But if you take the assumption that the market is not particularly strong, i.e. on the weak side when we enter into 2017, we will keep maintenance CapEx at close to a minimum. And we see from our -- both the 2015 actual CapEx, the 2016 guided CapEx that that would mean being somewhere between $40m and $60m of maintenance CapEx. It could obviously be even lower than that.

We have an equipment pool in place and similar that should enable us to avoid buying too much of new equipment to maintain our current fleet. So we're taking out enough of capacity to keep maintenance CapEx low for a few years ahead. What it ultimately ends up being, that's a decision to be taken in light of the market when we get closer. But that's I think what I can say.

Teodor Nilsen - *Swedbank - Analyst*

Okay. And one question on Azimuth. There's been a lot of discussion around Azimuth today. Do you have any ballpark figure of what the market cap of your investment could be in Azimuth in the current market?

Jon Erik Reinhardsen - *Petroleum Geo Services ASA - President & CEO*

No, I don't. I'll just repeat what I said. We are very strong believers in what the Azimuth team is doing, what they have been able to achieve now in this downturn to improve their position. We think and we hear from other oil companies through Azimuth that they have a lot of attraction even in this point in the cycle. Obviously those who are looking at buying things from Azimuth have a longer-term perspective than just what you can get for a company today, and so do we and the investors. We have patience here.

But normally when you come out of a downturn, the E&Ps are the first derivatives of the oil price and the service companies are the second derivatives so we come a bit later in how value is created. So who knows? Maybe there is more cap generated earlier from Azimuth than from the underlying seismic business if this cycle moves out in a similar way than earlier cycles have done.

But we don't have a valuation. I don't think any of you looking at the stock put any value on it either. But it is an option that sits there that we have a lot of faith in and we think will create a lot of value for us going forward.

Teodor Nilsen - *Swedbank - Analyst*

And then just one final question from me, I guess as more like a long-term question. Jon Erik, you addressed the fact that the MC portion of total revenues is increasing and contract portion is declining. Is there any chance that over the next two to three or maybe five years you could see that the contract portion of total seismic revenue globally is close to zero? Is that a scenario at all?

Jon Erik Reinhardsen - *Petroleum Geo Services ASA - President & CEO*

I don't think that's what we see, but I think we can still see trending to further multi-client. What I think will remain contract will be 4D surveys, baseline monitors in that category. There are also still some clients that prefer contracts to have unique access to the data. And there are still some countries where the multi-client model is not accepted.

One country like that has been Malaysia. And you've seen now Malaysia is opening up for a new model, and we are part of that set-up. So there are reasons for why there will be a contract segment. But I think it will be smaller than it historically has been.

Teodor Nilsen - *Swedbank - Analyst*

Okay. Thank you. That's all from me.

Bard Stenberg - *Petroleum Geo Services ASA - VP IR & Corporate Communication*

Okay, operator. I think we'll end the Q&A session on the conference call there. I think we have one more question here in Oslo in the audience. Okay, John?

Unidentified Audience Member

Yes. I have a follow-up. You had separate [covers] for Q4. How worried are you about this upcoming [winter]? Do you normally look for (inaudible)?

Jon Erik Reinhardsen - *Petroleum Geo Services ASA - President & CEO*

I think I said that's where the focus goes in now. Last year at this point I think we had 30%. So there is a small difference, maybe 1, 1.5 vessel difference in booking. It's way too early to be worried. This -- it's from now and the next few months when you start to book a Q4. And that 1, 1.5 vessel could, as an option, end up being a [second] vessel, to put it that way, when we got there. So as Gottfred said, we keep all options open when it comes to Q4 in terms of how we see it playing out opportunity-wise, pricing-wise and our ability to book the vessels.

Unidentified Audience Member

But you're not prepared to stack vessels (inaudible)?

Jon Erik Reinhardsen - *Petroleum Geo Services ASA - President & CEO*

That is an option that we will keep open as long as the market is the way it is today.

Unidentified Audience Member

When do you have to make the decision when you stack vessels for the winter season?

Jon Erik Reinhardsen - *Petroleum Geo Services ASA - President & CEO*

This is more a matter of how smooth the transition from operating to stacking will be. If you have three months, you have sufficient time. If you have one month, you are a bit on the short time but it ends up costing a bit more. So that's the decision we can be prepared to take if we need to but that we don't have to take for another three or four months at least.

Unidentified Audience Member

Is it possible to give the book value of the equity in Azimuth?

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

Absolutely. Our book value of the investment is 94-point-some million.

Unidentified Audience Member

That's your part for 45. Do the other owners also put in new cash in connection with the [equity issue] (inaudible)?

Jon Erik Reinhardsen - *Petroleum Geo Services ASA - President & CEO*

Yes. Some was put in. And there is committed cash to match what we have in and more. So the other owners are very much on board with the strategy and the library acquisition and the way forward.

Unidentified Audience Member

So final question is on the comment that you had earlier on, saying that there was some agreement during April. And it was commented on the questions earlier on that your late sales, apart from Azimuth sales, were rather weaker, I would say. Any hope for improved late sales now for Q2 and Q3? Maybe you could comment a little bit where is that likely to happen. Where is the interest picking up more than other players in terms of geographical?

Jon Erik Reinhardsen - *Petroleum Geo Services ASA - President & CEO*

Yes. To your first statement, yes, late sales for Q1 is on a longer term low, low for everyone in the industry, probably better than most on our hand, excluding Azimuth. But I'm not prepared to say where for the next months we get it. I think it's impossible to say and plan because you have a long list of prospective sales, but it often ends up at a relatively high level in the oil company where you get it approved or not. And we are not privy to insight into those processes obviously. So that's not something that is possible for us to give you any guidance on.

Unidentified Audience Member

Okay. Thank you.

Bard Stenberg - *Petroleum Geo Services ASA - VP IR & Corporate Communication*

Okay. And that concludes the presentation. Thank you all for coming and thank you all for listening to us on the conference call. We'd also like to remind you of the conference call we have this afternoon at 3pm CET.

Thank you. Goodbye.