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PGS.OL - Q2 2017 Petroleum Geo Services ASA Earnings Call (Morning)

EVENT DATE/TIME: JULY 27, 2017 / 7:00AM GMT

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PRESENTATION

Bård Stenberg *- Petroleum Geo-Services ASA - VP of IR & Corporate Communications*

Good morning and welcome to this presentation of PGS Q2 2017 results. My name is Bard Stenberg, the Vice President of Investor Relations and Corporate Communications. Today's presentation is being followed by a conference call and the participants on the conference call are invited to ask questions after management concluding remarks. We also have a conference call scheduled later today at 2:00 PM CET, 8:00 AM Eastern Time. Before we start, I would like to give some practical information. As we are broadcasting this presentation, I kindly ask the audience here in Oslo to use the microphones provided when asking questions.

Also for the audience here in Oslo, please take notice of the emergency exit located in the back of the room and if the alarm is sounded, please evacuate immediately. I would also like to draw your attention to the cautionary statement showing on the screen, also available in today's earnings release and please study that carefully. Today's presentation is being given by President and CEO, Jon Erik Reinhardsen and CFO, Gottfred Langseth. And with that, it's my pleasure to give the floor to you, Jon Erik.

Jon Erik Reinhardsen

Thank you, Bard, and good morning, everyone. This second quarter is characterized by strong MultiClient or strong client response to our MultiClient offering as well as solid operations when converting backlog to high quality revenue. We had MultiClient sales of $127.6 million. Late sales driven by a very diverse customer base in several regions, which I will come back to, while acquisition activity is mainly focused or was mainly focused on the North Sea and the Eastern Mediterranean. Another quarter with strong pre-funding level of 115%. Also this quarter we had as predicted an improvement in our Marine contract pricing year-over-year and ended up with an EBITDA of $112.5 million, significantly up from the same quarter last year.

We also commenced large MultiClient campaigns offshore East Canada, which will carry the third quarter to a large extent. In order to continue to focus on staying lead, we have introduced further cost cuts of another $50 million, $60 million in cash cost. All in all, the first half has played out within the scenarios we envisaged during the refinancing. Moving to the second slide, three of the four panels then shows the uptick we are delivering with the numbers. The fourth panel, cash flow from operations, is not yet showing the uptick basically because a good chunk of the revenues in Q2 were secured in the latter half of the quarter with cash flow then coming in the third quarter. Gottfred will come back to that in a bit more detail.

On the order book, we see an order book of about $248 million by end of the quarter. This is down from $340 million a quarter ago. The main backlog burn is related to contract partly since a lot of the capacity was allocated to contract in this quarter, partly not a lot new work in the contract since there has been relatively low bidding activity within contract, which we'll see from a later curve and partly also because we have a very limited capacity to sell in this window given a relatively high booking going out of the previous quarter. MultiClient backlog is $182 million, which is down from I believe $198 million a quarter ago so not a big variation there.

We have secured in the quarter $96 million of new orders, but we have then adjusted the backlog down with $25 million due to project cancellation, it relates to Brazil and work for Q2, Q3 2018 caused by disappointing well results. So, that's also an explanation for the adjustment. Given the Q2, Q3 window, which we expect to be stronger over the full year next year, we don't see that as very dramatic. When you come to vessel booking, we have now booked 90% for the current quarter and we were at 95% this time last year so pretty much the same. For Q4 we are at 40%, we were at 60% last year. But for those for you with a good memory, remember that a couple of the orders we had at that time were later moved into Q1 last year. So in reality, we are probably ahead of last year's booking when it comes to Q4 as it sits now and then we have 15% for Q1 and 5% booked for Q2 next year.

When it comes to the unsold Q4 2007 (sic) [2017] capacity, we plan to fill that with 2/3 MultiClient and 1/3 contract. This is in line with the overall guidance of 50% MultiClient of the active time for the full year. For the MultiClient, we have plans in place for specific projects to fill that capacity. They are not mature enough yet to be confirmed as booked, but we are optimistic that we will be able to fill a good chunk of that. For contract, which is then the remaining 1.5 vessel for the quarter. We have bid out, but we see a competitive situation for Q4 and there is obviously some uncertainty related to that. It's still a while ahead before we to come to Q4.

What do we do with this one, Bard? You take that. And with that and while we fix the system, I hand over to Gottfred Langseth to walk us through the numbers in more detail.

Gottfred Langseth

Thank you. Good morning, everyone. I will start with the P&L summary as you should. Strong revenue growth in the quarter $240.5 million of revenues in Q2. The increase compared to the second quarter last year is primarily driven by MultiClient late sales and higher contract revenues that we'll show in the next slide. EBITDA for the quarter, as mentioned by Jon Erik, $112.5 million corresponds to an EBITDA margin of 46.8%. We had an EBIT before impairment and other charges of negative $8.7 million. Recorded some impairment and charges in the quarter, the net of all that was $6.5 million negative. So we reported EBIT including everything, negative $17.4 million.

On the operational highlights, MultiClient revenues totaling $127.6 million. Pre-funding $50.2 million in the quarter. We continue to deliver a consistent high pre-funding and as illustration to the right in this slide shows with the purple line, we are generally in the [factor] around the high end of our targeted pre-funding interval. 115% pre-funding in the second quarter on $43.8 million of cash investment. Late sales, $77.4 million. The best late sales quarter since Q4 2014 and if you want to compare to previously best second quarters, you have to go even further back so good progress. Marine contract revenues benefited from improved pricing, strong operations and we also allocated a large share of our acquisition capacity to contract in the quarter.

$95.9 million of revenues stands out -- on a quarterly basis stands out as significantly higher than what we've seen over the recent years as illustrated in the graph to the left on this slide. If I move to MultiClient sales per region, late sales revenues were strongest in Europe and South America. The pre-funding revenues were primarily from Europe and Middle East. The pre-funding revenues will continue to increase in Q3 as we allocate more capacity to MultiClient and we have a good survey portfolio in the quarter. Vintage distribution for MultiClient. Book value of the library was $606 million at the end of Q2, that's down from $647 million at the start of the year.

Quite moderate book values for the vintages of completed surveys. 61% amortization rate in the quarter and our estimate for full-year amortization is unchanged from earlier at $350 million to $375 million. I will be quick on the key operating numbers. The revenue numbers have already been commented on. We had depreciation of $42.5 million in the quarter, that's relatively unchanged sequentially and compared to last year despite operating more capacity. We had impairments in the quarter of $9.9 million, that's relating to a stacking on Ramform Vanguard, which I will revert to and we had other charges in the quarter net of negative $3.4 million.

CapEx in the quarter was $12.9 million. We had on utilization relatively highly active time in the quarter, 84% mostly on contract as commented on already. For the full year, our estimate for allocation between MultiClient and contract is unchanged at 50% to each. Moving on to cash cost, gross cash cost in the quarter was $175 million. That's a sequential increase from the first quarter driven by more capacity in operation and that's primarily the entry of Ramform Hyperion into operation and taking Vanguard out of cold-stack early second quarter. If we move to the full-year cost numbers. We now expect full-year gross cash cost to be below $700 million for 2017. That's a reduction compared to what we said in May when we reported the Q1 numbers.

Note that the illustration is based on oil and fuel prices and currency rates at 30th June and does not factor in any material change. Beyond that, we've seen some weakening of the kroner and strengthening of the oil price, which obviously is good of the recent week or so, which could technically impact the numbers and if it does, obviously it's something we would welcome. Anyway, we have initiated further cost reductions, which we expect will bring $50 million to $60 million of annual run rate cash cost reductions from Q4 this year. Initiatives includes the cold-stacking of Ramform Vanguard post the North Sea season so bit into Q4, but also other actions across the group.

These initiatives will have some impact on the Q4 cash cost. I mean that's part of the background for the reduction of the full-year 2017 guiding, but the full effect will be seen early 2018. Moving to the cash flow statement. Cash from operations higher than Q2 last year driven by significantly higher earnings. Most of that was offset by an increase in receivables or working capital to the tune of $60 million in the quarter, which is a direct reflection of the revenue profile in second quarter, which was back-end loaded. This will be collected in the third quarter and if you combine that with the high visibility for acquisition-related revenues in the third quarter, both pre-funding and contract revenues, cash flow from operations in the third quarter will be very strong.

Balance sheet, liquidity reserve of $228.3 million. We increased the drawings on the revolving facility by $60 million in the quarter. We expect to reduce the drawings again in the third quarter. It should be added that we also increased the cash balance in the second quarter by $15 million and made scheduled debt repayments of $13 million in the second quarter. The headroom under the total leverage ratio covenant in the RCF has improved with a total leverage ratio at the end of Q2 of 4.39 compared to 4.88 3 months earlier. Lastly on the summary of debt and drawing facilities, no significant changes over and above what I already commented on on the last slide.

So, I will just leave it there while I welcome Jon Erik back to the podium.

Jon Erik Reinhardsen

So, we move to the overview of the current operations. High activity in Canada, record high on our part, 3 high productivity 3D vessels and 1 2D vessel continuing to build on our strong position in Northeast Canada. We continue to develop our library in the North Sea, Norwegian Sea areas, recently completed a more comprehensive MultiClient program in Eastern Mediterranean, active with 4D work in Angola, recently completed contract work in Malaysia and working offshore Taiwan with 3D contract work at the moment. Sorry. A bit on the market. We do see and observe substantial improvements in oil companies' cash flows over the last quarters and that has led to on many fronts a much more predictable customer response in the market.

And in particular, we have not seen any negative client behavior or change to the negative during the oil price fluctuations in Q2 even though we sense from many investors there was a nervousness for that. We see that the oil companies acting more long term based on the participations they have gained. Also as reported earlier, we have seen pockets of opportunity in Q2, Q3 for contract pricing improving owing to more 4D production and also capacity constraints in some regional markets. The outlook for Q4 is low when it comes to contract bidding activity and very competitive while we see an improved bid pipeline for Q1 and Q2 2018.

This is also now seen on the bids and leads curves for contract work where you see the leads curve has been ticking up and actually represents some encouraging leads developing for 2018. You also see in line with what I said about the contract backlog declining. That's been a relatively low bidding activity lately, but some bids are out and we have positioned for these obviously to fill the remaining contract capacity for the year. Demand is still driven by positioning for strategically important license rounds driven by commitments for E&P licenses that has been awarded and increasingly also for 4D seismic in particular when it comes to North Sea, West Africa and Brazil. We still view the balance between MultiClient and contract overall to continue to shift in favor of MultiClient.

Moving to the next, which we regularly update. We expect a relatively flat development this year over last year when it comes to square kilometers . This is adjusted down from what we said a quarter ago. It's not really driven by expected less demand for vessel capacity. It's more driven by which is expressed here in square kilometers a change in mix of service. So, more 4D which is more capacity per square than the bigger surveys that took the place for these surveys last year in particular in Myanmar or some huge surveys that took a lot of capacity. Also there is more MultiClient 3D surveys in the mix. We do see also in this account of annual averages that within the year there is seasonal variations.

We saw it last year, we are going to see this year where the winter activity is the main reason for the reduction in square kilometers over these last 3, 4 years while the North Atlantic summer season has been much more resilient. Then it causes an imbalance in the -- in the annual opportunity to utilize the fleet, which is another reason why we cold-stack Ramform Vanguard to hedge a bit more on the cost side on the average and it also brings some benefits of course on the -- on the CapEx side. On the streamer side, the summer capacity -- season capacity has ended up being 35%, 40% lower than the peak in 2013 and with the relatively good supply demand balance during the summer season, hence the opportunity to improve pricing.

We see global stream approval continuing to shrink. Following up on the 4D, this slide is pretty much as we saw it the last quarter. A significant increase this year over last year. A lot of this is about to be done and mainly driven by North Sea, West Africa and Brazil. And what we see coming through on the lead side pretty much confirm our expectations for next year with another leap upwards when it comes to 4D activity. This is a market where we are well positioned where we this year will do a bit more than 50% of the global activity and it does represent roughly 35% of our 2017 contract revenues. Then we have included one more slide to give a bit more granularity to the distribution of sales in MultiClient. You're often hit with the comment that if you have a very strong late sales quarter is one big [sale], even a discounted sale is often being claimed.

I'm happy to say that this quarter we have been extremely stubborn on pricing and we still had a very high payout on our offerings to clients and we have a very well distributed income side from the library. This speaks very well to the quality of the library despite the relatively high pre-funding we are consistently achieving. The gray clients are predominantly prefunders so that's really where the 115% pre-funding comes from and the blue is similarly predominantly late sales and you see half of the revenue comes from 20 customers that has purchased for between $1 million and $7 million and then there's another 4% of the revenues that actually is distributed over 47 customers with less than $1 million each. So, 70 clients this quarter distributed over 90 projects.

And again, I think we are able to harvest from a very healthy library. In particular, the GeoStreamer that we believe delivers a longer shelf life for the library and therefore over time a higher return, but also the high productivity vessels are delivering a lower unit cost per square compared to our peers. Moving to the next slide. We have since 2010 very deliberately continued to build our MultiClient business and deliberately tried to make that a bigger weight in the total in order to bring more stability over time to the group performance in a highly cyclical market and we expect that to continue. Revenues are of course currently dominated by MultiClient also from a pricing perspective. In the first half, 52% of the revenues were MultiClient. We expect that to increase significantly in the second half.

So, the dark bars at the top will continue to increase also for 2017 over 2016. This quarter we had a very healthy sales/investment ratio of 2.9x and overall still most of the EBITDA is generated by MultiClient activity. And as I said, it is very much a result of over time consistent GeoStreamer investments, leading productivity and advanced high quality imaging that drives the higher returns from the library. Still we have retained flexibility to leverage a recovery in the marine contract market that we have seen some signs of in the second quarter. We are still also a marine contract player with differentiating productivity and technology. I would add to the guidance slide group cash cost now guided to be below $700 million adjusted as Gottfred has been through.

MultiClient cash investment still expected $250 million with a pre-funding level of approximately 100% and roughly 50% of the capacity will be MultiClient, 50% contract. CapEx is as before expected to be $150 million. In conclusion, we still see us as competitively positioned to navigate the current market. We've had a quarter with strong MultiClient sales. We have benefited from improvements in marine pricing -- marine contract pricing year-over-year and in particular, due to our strong position in the 4D market. For Q4 we see competitive contract bidding, but with a clear plan and strategy to fill our unsold capacity. We see an improved bid pipeline for Q1 and Q2 2018 and we continue to focus on cash cost cuts with another $50 million to $60 million initiative.

And then since this is my last quarter, I would like to thank you all for following us, for good and challenging discussions with many of you and I wish you all continued success in your various endeavors. And with that, I hand over to Bard Stenberg to take us through the Q&A.

QUESTIONS AND ANSWERS

Bård Stenberg - *Petroleum Geo-Services ASA - VP of IR & Corporate Communications*

Thank you, Jon Erik. I think we can start with questions from the audience here in Oslo. We have one here all ready.

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

It's John Olaisen from ABG. The first question on contract basis, the prices are under pressure for this winter and you have been very specific on the cost improvement -- I'm sorry, on (inaudible) improvement in Q2 and Q3, but to be a bit more accurate on oil. Give an indication on price pressure in Q4 relative to the troubled [mines]?

Jon Erik Reinhardsen

Do you want to take it or....?

Gottfred Langseth

I think you can take it.

Jon Erik Reinhardsen

It's a bit early given that there is a good mix or a good share of MultiClient in the book's capacity so there's not much contract. But it's not unlikely given the relatively low pricing last year that pricing in Q4 would move up also for Q4 given what we see today. But I can't -- it's not possible to say much more with quality for you at this stage.

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

Now welcome to next summer and seeing folks resulting improvement. Can you be a bit more specific, are there contracts that have been awarded to others and yourselves or which regions are it, et cetera, a bit more?

Jon Erik Reinhardsen

There is work being awarded for next year relative to Brazil, relative to the North Sea and there's bids out, but not much. But increasingly now there are bids coming in for Q1 for next year, which is what we indicate here and also on the leading indicator. That's kind of where it is. But it's early days relative to next year when it comes to bids and backlog.

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

And normally some of your backlog has been late in Q4 or early Q1, do you expect the same this year? So, that you will have (inaudible)?

Jon Erik Reinhardsen

That is normal when we are in the lower parts of the cycle and then as you remember when we are in a tighter cycle, you could see bookings already. There is some work already booked for the North Sea next year in the 4D space where the clients is of the view that the market will be tighter next year and therefore has been early in securing capacity. But it's not large volumes, but it is what it is.

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

One question on Q4, (inaudible), could you tell us where it is and have you included pre-funding for those projects?

Jon Erik Reinhardsen

I cannot tell you where it is, but the plan is to do pre-funded MultiClient work for those activities.

Bård Stenberg - *Petroleum Geo-Services ASA - VP of IR & Corporate Communications*

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

Operator

(Operator Instructions) Now we come to our first question for today.

Amy Wong

It's Amy from UBS. Can you hear me?

Bård Stenberg - *Petroleum Geo-Services ASA - VP of IR & Corporate Communications*

Yes, Amy.

Amy Wong

A couple of questions from me please. The first one is related to your comment about volumes in the industry, '17 now more in line with '16. Can you kind of -- what would you say was the big triggering effect for you to revise your view of the market there? Second point is then -- second question is a little more detail. Gottfred, would you be able to talk us through some of the moving parts in your cash flow generation in the second half of this year, including how you expect working capital to move and CapEx and any other moving part we should think about, including like taxes and interest, please? Thank you.

Jon Erik Reinhardsen

To the first part, I mean basically what is going on this year versus last year is that there's kind of a substitution of a number of relatively large surveys last year. Myanmar is one example where you had 5 and 10 and up in that 5 square kilometer surveys with a number of 4D surveys that are very small in squares, but very capacity intensive and is being executed that brings that mix of square kilometers down still with roughly the same capacity being utilized. So, that's the overall driver and then we have been a little bit more cautious in what we expect of squares in the fourth quarter in the mix. So, that's kind of what's driving the adjustments. These are ranges, still in the upper end of our range now is not far from the lower end of our range a quarter ago. So it's not like a huge dramatic swing, but we have sort of tried to adjust this curve more on a sort of a 10% basis when there is something to adjust. On the cash flow, I think I'll leave it to Gottfred.

Gottfred Langseth

Amy, I will be very cautious in going into too much detail, but it is just a reflection on second quarter. There will be lag effect from generating -- revenue generation to cash collection. We generally have a [day's old] from recorded revenues. The revenues day, the production day to collection days, it's rather about 2 months. We entered into Q2 with a quite lower revenue number from first quarter so little to collect run rate out of the second quarter with high run rate revenues, which anyway has hurt relatively to earnings the cash flow in the second quarter, but that in a way the step ramp-up has been taken now by end of second quarter pretty much in a way. Should revenues grow further and beyond that, that is obviously something we can deal with. As well on a quarterly basis if you look at the drivers for second half cash flow, I think the overall statement I said something about Q3 cash flow from operations should be expected to be very strong and that may well relate to Q4 as well. We start with a high working capital, which is not structurally high, it's just a reflection of the revenues, which will clearly benefit the second half cash flow to the tune of the say $60 million, which was the increase over what we had in Q1. So, then it's -- we are likely to see a reduction of working capital in Q3 and maybe also in Q4, but that depends obviously on the revenue number. If the revenues increase, we can see a forecasted increase in working capital without having a negative impact on the net cash flow. So, you just have to model that with a -- it's a fair assumption to assume nothing to get confused -- reduction of working capital and then whatever EBITDA you might want to estimate out. We don't have material tax payments, we had I think less than $10 million for the full year last year. The run rate probably for a year is probably in $10 million to $15 million obviously depending on exactly which country we operate in. In many countries, there's no tax or there's quite tax numbers -- high tax cost, which we cater into. Our bidding. Quickly then on -- you have our guidance on MultiClient investment and you know what we've done so far this year so that's just mechanics. We have $250 million for the full year. CapEx, we've said $150 million for the full year. We already incurred around $125 million so there's s $25 million, $30 million of CapEx remaining for the year if I'm not reading the numbers incorrectly. So, it should be moderate compared to the operating cash flow. Our interest payments for a full year is between $55 million and $60 million. So for the half year, it should be approximately half of that. And then we have a debt amortization, which is basically relating to the ECA financing and that's disclosed in the quarterly release around $47 million annually of sort of scheduled debt repayment on ECA financing and again around half of that in the second half. I think I would leave it with that, I see that people are getting impatient. If that's okay, otherwise I will just cover it and we can dive further into it.

Operator

We come to our next question.

Unidentified Analyst

This is [Pieter from IOC Capital]. Just wanted to ask you on your read on the development in the seabeds market when the nodes are used as a substitution for conventional data acquisition of the streamer. You must have seen the contract recently won by [CGD] of South America. So I was wondering to what extent you see demand for -- especially for the large vessels and how do you see PGS competing in this market?

Jon Erik Reinhardsen

As you know, we are not playing in those markets. We follow it, we observe it, we have been open to collaboration if there is a question of joint or combined bids, but we have not found sufficient differentiating opportunities to play in that market so far. It's growing, but I am not worried when it comes to the growth in the streamer market relative to this. The niche for -- is clearly in the 4D space, but still there is a high competitive advantage for streamers when it comes to unit cost and continue to be improved quality on the streamer side. So, it's really a matter of what would an oil company pay for improved quality that kind of determined whether you do one or the other. And as you know, our clients are very cost conscious these days so it's not an obvious case that every time I want to have something that is better if I can do with something that is good enough. And that's why you see the 4D streamer market growing and all the graphs I have shown relates to 4D streamer market, it's not nodes in that market presentation.

Unidentified Analyst

Thank you and just -- sorry.

Jon Erik Reinhardsen

No, that's fine.. That's what I'm trying to say.

Unidentified Analyst

Right. So just to follow up on the comment you make that the streamers continue to be competitive on the cost basis. Can you give us a bit more color how this competitive position and this edge depends on the size of the service, the inflection point below which the [Napster] operator produces smaller surveys where this competitive edge of using larger more efficient vessels like yourself is diminished?

Jon Erik Reinhardsen

Most of the 4Ds we have done this year, we have -- with some of our baseline surveys, we have used high productivity configurations like 14x7, 14x8 type baseline configurations. It's a mix that as soon as you go 4D, you need a small boat. We have also conventional 12 streamer boats we can offer if that is what it takes, but we continue to see that on average in volume and market, the higher productivity vessels are the winners. And in particular, you see that coming through in the return from the library where we of course use the higher productivity vessels where that is applicable and that is in most cases where we build library.

Operator

We move on to our next questioner

Unidentified Analyst

[Igor from CG]. Congratulations on the excellent results on the MultiClient late sales. But I'm wondering whether there's a timing effect in there and so we might expect a lower performance in that segment in Q3 '17 compared to Q3 '16? Thank you.

Jon Erik Reinhardsen

I don't think we are able to give you any sort of refined outlook for that. If you look in the mirror, there has been variations over the quarters and I think it's more meaningful to look at this over a full year and more meaningful to look at it in combination between late sales and pre-funding, but it's the total return that matters. But I'm not in a position to give you any detailed guidance on Q3 late sales.

Operator

And we have another question.

Amy Wong

It's Amy from UBS again. Thanks for letting me ask a follow-up question. This is more on Mexico and your view of the opportunities there. There's been some commentary from operators in the region saying there's a lot of seismic there and really although it's quite old from the late'90s and the early 2000s, but really all you need to do is be processing. Could you comment whether you share that view or not and maybe potentially comment on the prospects for additional acquisition work in that -- in that basin, please? Thank you.

Jon Erik Reinhardsen

Yes, Amy. As you know, we have taken a very cautious view when it comes to investing in Mexico. So, we have 1/3 of an ownership in a 2D program and that's what it is. We have been uncertain about the pace of development, the willingness to pay, the possibility to make good returns in Mexico and it's not a market that sort of we rely on when it comes to our planning for next year either. And then we will see going forward whether this turns out to be a new great market or whether -- which I've heard indicated from some operators that Pemex has actually done quite a decent job in what they've done and that the upside is not as significant as maybe a lot of people thought a while back.

Operator

Then we come to our next question.

Jon Masdal - *DNB Markets, Research Division - Analyst*

This is John Masdal from DNB Markets . I have a quick question on the MultiClient projects in Q4 that you haven't included in your backlog. Can you comment a bit why you haven't included? Is this more that you don't want to show your competitors where you're going or is it lack of permits or prefunding?

Jon Erik Reinhardsen

We have certain guidelines we work and abide to when it comes to when a project is mature enough to be considered as booked and these projects have not reached that stage yet, but I have no further detail to offer you beyond that at the moment. And competition is one reason for that obviously.

Jon Masdal - *DNB Markets, Research Division - Analyst*

Okay. And then totally another topic on Azimuth. Why has the percentage ownership in Azimuth gone down, what has happened there?

Jon Erik Reinhardsen

I wasn't aware it had gone down.

Gottfred Langseth

This basically relates primarily to management in Azimuth and a slight dilution relating to that.

Jon Masdal - *DNB Markets, Research Division - Analyst*

Okay. What has actually happened like is it lack of or someone else funded it or have you sold or what has actually happened?

Jon Erik Reinhardsen

If it relates to management, it probably is to management as part of this at this time I would guess.

Jon Masdal - *DNB Markets, Research Division - Analyst*

Okay. That type of (inaudible) portfolio management in another sense. Then on the MultiClient ratio number of clients, good shot but can you give us some context on where you are in terms of how has this been historically like the number of clients and .....?

Jon Erik Reinhardsen

That's a good point, John. We often have relatively wide distribution of sales. So when we did this now, it was kind of to explain that there has been a perception out there that our late sales have been lumpy and a few big clients and big discounts just to show you what it is in reality so it's not an atypical picture. But our library touches a large customer base every quarter in many parts of the world so just to give some more flavor to all of you to kind of make sure the perception of how the library is sold is correct.

Jon Masdal - *DNB Markets, Research Division - Analyst*

The last question there just in terms of then obviously you have the number of clients here, but in terms of pricing. Can you give any comments on pricing maybe year-over-year on the late sales in square kilometers or some other metric?

Jon Erik Reinhardsen

I have no specifics, but I know from the sales teams that this quarter they have been particularly stubborn on pricing and has been very successful with that. So, I think what we see is a client base that is more and more accepting that they need the data and they need to pay and that's it.

Operator

We come to our next question.

Unidentified Analyst

(technical difficulty)

Operator

Could you speak up a little bit?

Unidentified Analyst

Yes, hello, I have a question on the $25 million that was cancelled from the order backlog . The $25 million that was cancelled from the order backlog, is that normal that the order backlog depends on the well response and (technical difficulty).

Jon Erik Reinhardsen

It's normal in the contract market that the contracts have cancellation clauses and where the penalty for canceling increases the closer you come to the performance of the survey.

Unidentified Analyst

(technical difficulty)

Jon Erik Reinhardsen

Did you say anything more now? Was it just noise? Echo. So from time-to-time that can happen, we have not had a lot of this over the last years. But in this particular case, it was contract and it was related to a bigger area in Brazil and where the well results came in disappointing and then under normal contract clauses, the client can cancel the work.

Operator

As there are no further questions in the queue, I would like to turn the call back to the speakers for any closing remarks.

Bård Stenberg - *Petroleum Geo-Services ASA - VP of IR & Corporate Communications*

Thank you, operator. Are there any further questions from the people in the Oslo?

Dale Stormyrs

Stormyrs from Danske Bank Markets. Could you comment a little bit on Brazil? You mentioned that South America was one of the regions that contributed to late sales in Q2 and we have the licensing round coming up in late September. What's your expectation for, let's say, sales in Q3 from that region relative to Q2 and what's your sort of view on the development there most recently?

Jon Erik Reinhardsen

It's definitely positive what's going on now and we expect that market to strengthen, but I'm not able to predict Q3 particularly in that respect. We have a strong position in the areas where we are now, acreage is being opened up going forward. We have also of course made library positions in other parts of Brazil that is of our interest. We continue to invest library in Brazil. We will move one of the vessels into Brazil in Q4 as part of the backlog to do more library based acquisition and we think the market is improving. We also do quite a bit of reprocessing that is well pre-funding of existing data in the library that we have.

Dale Stormyrs

And Gottfred, on the cost-cutting measures, could you split out how much of that is truly related to Vanguard stacking and what's related to other cost measures?

Gottfred Langseth

I could I think. I think you can -- you're able to estimate pretty much what the full-year cash cost is for a 3D vessel operation. When we stack -- cold-stack it, gradually we take it now to cold-stack cost level, which is between $1,000 or $2,000 a day. So, I think it's fairly...

Dale Stormyrs

The majority is from that?

Gottfred Langseth

It's more than half of the amount.

Dale Stormyrs

And on the RCF that you grew in this quarter and expect to pay in the next quarter, is that on the same scale? Do your expect the drawing to be, let's say, lower at year-end -- sorry -- at quarter-end Q3 on the RCF over...

Gottfred Langseth

Lower than at Q2 or...?

Dale Stormyrs

Yes. Do you expect to repay the same amount you drew in Q2 or do you expect to be paying more than that?

Gottfred Langseth

I think that's too early to say. So I limit myself to say that we expect to repay and I'll leave it with that.

Bård Stenberg - *Petroleum Geo-Services ASA - VP of IR & Corporate Communications*

Okay. If there's no further questions, that concludes the presentation. Thank you all for coming and also thank you all for participating on the conference call. We also like to remind you on the conference call we have later today at 2:00 PM CET and 8:00 AM Eastern Time. So, have a nice day.