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PGS.OL - Q2 2016 Petroleum Geo Services ASA Earnings Call (Morning)

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PRESENTATION

Bard Stenberg - *Petroleum Geo-Services ASA - VP Corporate Communications*

Good morning and welcome to this presentation of PGS Q2 and the first-half 2016 results. My name is Bard Stenberg, Vice President of Investor Relations and Corporate Communications.

We are running a conference call in parallel with this presentation, so the participants on the conference call will also be invited to ask questions after management's concluding remarks.

There will also be a conference call later today at 2:00 PM CAT and 8:00 AM Eastern Time.

Before I start I would like to give some practical information. As we are broadcasting this event, I kindly ask the audience here in Oslo to use the microphones provided when asking questions. (Conference Instructions).

I would also like to draw your attention to the cautionary statement showing on the screen, also available in the earnings release and presentation made public today.

Today's presentation will be made by CEO Jon Erik Reinhardsen and CFO Gottfred Langseth. So, 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. In this market we continue to stay focused on the factors we can influence, which is basically sales and operations, cost and cash flow discipline. And during this first half-year we have very good progress on all these parameters, which we will refer to in the presentation today.

Our substantial cost reductions continue to deliver at or above the ambitions which we have set, which you have seen or will see in the report today.

In this quarter, in particular, we have healthy MultiClient sales, not the least considering the current market.

Our financial performance in Q2 delivers an EBITDA of $68.8 million, primarily driven by a MultiClient set of revenues of $93.2 million. Prefunding robust at 113% and we have a liquidity reserve of $429.7 million.

We see early signs of improved market sentiment, which we will refer to later on in the presentation.

We are on track to deliver at least the $90 million cash cost reduction that we now are aiming for in 2016.

Our vessel performance continues to be very strong, with a number of very positive feedbacks from the client base.

And, finally, as an introduction, known to the market already, we have amended our covenant ratio to our revolving credit facility to increase the headroom and this gives us an adequate position with no maturities before late 2018.

It gives us time and strengthened ability to navigate through the cycle and we can act with this flexibility with how we see the market develops in addressing these maturities.

Moving to slide number 4, what I would focus on is the two last quarters when it comes to cash flow from operations versus EBITDA. We have a strong year-to-date cash flow, notably above the EBITDA, due to working capital improvements.

Next, order book; trending up from a low in first quarter 2016. Booking starts to build now for the coming winter with 50% for Q4, 15% for Q1 and 10% now for Q2.

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

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

Thank you. Good morning. I will start with some comments on the overall P&L statement.

Revenues for the quarter were $183 million, which represents a market- and capacity-driven decline of 28% compared to Q2 last year.

EBITDA, $68.8 million. That's a reduction of 45% compared to Q2 last year. In addition to the market and reduced capacity, the EBITDA is also impacted by the fact that we have used significantly less of our capacity for MultiClient acquisition in Q2 this year compared to Q2 last year.

Operating loss EBIT, negative $44.6 million. We have had the restructuring costs in the first half totaling $3.4 million, primarily a severance cost.

In addition, for second quarter we had two other items negatively impacting the reported EBIT number. We had an increase for a debt that [we have a] provision for onerous contracts of approximately $3 million in the quarter. And we had a moderate impairment charge of $4.2 million, relating to some adjustment to our stacked vessels.

Moving to the next slide: Q2 operational highlights.

Total MultiClient revenues of $93.2 million. Prefunding $47.2 million and, with a MultiClient cash investment of $41.8 million, that represents a prefunding ratio of 113%. Late sales in the quarter, $46 million.

On the marine contract revenues we had a sequential increase of 18%. Revenues ended at $69.9 million. Continued low pricing for the contract work but, with some positive impact in the quarter from starting the Northern European season, prices are slightly better.

MultiClient revenues per region.

MultiClient revenues were highest in Europe and North America in the second quarter. That was the case both for our late sales revenues and our prefunding revenues.

If you look at the year to date it looks, though, from the graph here that we had a different regional mix in the first quarter, and so year to date our revenues from MultiClient are distributed across our main library regions.

This next slide show the book value, as well as the sales progress for our MultiClient by vintage, by year of completion.

Total book value of the library is down this quarter as well; book value of $686 million. And we have a moderate book value for surveys completed in the period 2011 to 2015.

Amortization rate was 67% in the quarter. That is relatively high. Primary reason for that is that revenues in absolute numbers were low in the quarter from MultiClient.

We still expect full-year amortization expense to be approximately $300 million.

Only a couple of comments to the next slide key operational numbers, imaging first.

External imaging revenues sequentially relatively flat, slightly up; posted $18 million in the quarter, lower than in the same period last year due to the general market.

And secondly, on the depreciation line you will see that that is slightly up sequentially. And that relates to, in part, less of the depreciation capitalized to the library, due to lower MultiClient vessel allocation, but also [answering] Ramform Tethys to operations during the second quarter.

Vessel utilization. Relatively low utilization in the quarter; 79% active time. The 19% steaming in the quarter was driven by moving five of our vessels to the North Sea for this summer season.

We've used a relatively low portion of our vessel time for MultiClient so far this year, as you can see from the illustration. That applies to both Q1 and Q2. This will increase in the second half, especially in the third quarter where we see significantly more allocation to MultiClient.

For the full year we expect 40% to 45% of our active time to be allocated to MultiClient.

Then cost. Our gross cash cost is continuing to come down. We had the sequential decrease of cost from $175 million in Q1 to $158 million in Q2. So we're quite satisfied with that.

The Q2 reported cost benefited from some of the reduced costs like steaming vessels. There's no [real] utilization and, therefore, lower cost. And also lower project-related cost.

We expect the total gross cash cost to be higher in the second half than in the first half of this year, due to more vessels in operation in the second half and also higher project-related costs.

In the next slide the full-year picture for gross cash cost; increasing effect of our cost-reduction activities. And we now expect our gross cash costs to get down to approximately $700 million or below.

Cost, clearly, has top priority, given the market conditions, and there is potential for further cost reductions.

Cash flow.

Cash provided from operating activities in Q2, $42.4 million; negatively impacted by some reversal of the significant positive working capital change we saw in the first quarter, primarily due to the phasing of revenues during the quarter. And that, again, relating to MultiClient revenues, which concluded relatively last in the quarter.

The year-to-date cash flow, as already commented, from operations $175.8 million, is quite strong, higher than the EBITDA for the same period, and reflects a positive working capital development year to date.

We had relatively high CapEx in Q2. That relates primarily to Ramform Hyperion, including the fact that the vessel was floated or launched now in the second quarter.

When evaluating the cash flow, it is important to note that our new-build CapEx has been significant in the first half. It will be approximately $115 million less in the second half compared to the first half.

And the next slide illustrates the CapEx for the two last of our new builds the Tethys and Hyperion, Tethys already delivered, and the timing of these.

And, with respect to 2016 full year, we've already incurred and paid $140 million of the $165 million expected for the full year. So we will see a more balanced cash flow in the second half of 2016.

The remaining CapEx, through the delivery of Ramform Hyperion, the last vessel, is substantially covered by the export credit financing that we have available.

Balance sheet.

Adequate liquidity reserve: $429.7 million.

We had a total leverage ratio end Q2 of 3.86, to be very precise. And, as you all are aware, we amended the leverage ratio requirement in our revolving facility earlier this year in May so that the requirement is to be below 5.5. And that applies to, but not including, mid-year next year and then there is a tapering of that level beyond such date, which is shown in one of the slides.

If you look at the increase in net interest bearing debt, the main part of that increase year to date, relates to the new-build CapEx, as explained.

Then my last slide, our debt and facilities structure.

There's not a lot of changes on this overview compared to last quarter. We have not made any changes to our drawing on revolving facility and there are no material, or no significant, debt maturities until late 2018.

With that, I will give the word back to Jon Erik. Thank you.

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

Thank you, Gottfred. I'm glad to reflect over one slide when it comes to our statement saying we see early signs of an improved market sentiment.

Number 1, and, needless to say, oil price has moved from high $20s to high $40s over a quarter. And that changes the dialog with the oil companies from being relatively confusing and not committing in the first quarter to now being very specific, forward-looking planning in terms of what these companies will become as they develop further.

Most of them are also coming out of their restructuring efforts. There are new organizations in place and there are new people to talk to with mandates and with budgets.

Secondly, we see it specifically in the MultiClient business in terms of interest for data library, which you have seen in the numbers in the second quarters. And there are still interesting dialogs for the third quarter, even though we have to expect that we are still in a trough cycle environment and we do expect both quarterly and regional near-term variability. That is part of the nature of where we are in the cycle.

Also in the contract market it's still characterized by low pricing and, since most of the work is booked for the year, contract pricing will not have a big effect upwardly for the current year. But we do see much more predictability when it comes to customers' planning of surveys and contracting processes.

In Q1 you could see cancelations for work that was out for bid. You could see projects never coming to fruition, not being approved by upper management. You see less of that now and much more predictable, stable processes around the work being awarded.

There is also in our customer dialog much more expression of what we could call pent-up client demand for these that has been pushed out in time for budget reasons but that eventually will have to come. It goes for the North Sea and Angola, in particular, but also for other parts of the world.

And we also see more that some licensed commitments are not necessarily acted upon immediately but pushed out. But, of course, since they are commitments to the governments, they will have to be acted on within a certain timeframe. So we expect that to represent an upside as we move forward.

Also on the supply side now we see high vessel utilization. Low industry vessel idle time reported in Q1. We expect this to be in Q2 from what we've seen so far clearly confirmed. And we expect that to be the case also in Q3. And significantly above what we had in 2015 with quite a lot of idle time, which you can also see from our slide that Gottfred showed a minute ago on vessel utilization.

There are other indicators as well here. If you look at our backlog number and divide it by the booked months, you see it's a much higher value in the backlog than it has been going backwards. And there are also indications of increased volume, which I will come back to.

All of this, combined with the customer dialog we continuously have, lead us to believe that in 2017 we will see a higher seismic activity level and higher spending than we see in 2016. Or, in other words, it's increasingly likely that 2016 is the trough year in this cycle the way we interpret the market today.

I spoke about the volume and the top graph on this slide, which is number 21 for those of you on the call, we now expect the industry to acquire 320,000 square kilometers to 340,000 square kilometers in 2016. That is up from our previous estimate that was about 300,000 square kilometers; about 10% in the mid of this range. And it is a volume that is higher in 2016 compared to pre-2010.

So, basically, when you look at the seismic industry, we do not have a volume problem on the demand side. There is a lot of work to be done. Not all of it is direct customer driven, some of it is MultiClient driven, but most of it has some prefunding, some backing from clients.

And then it will vary between the players in terms of how much risk is taken on the balance sheet when it comes to that MultiClient segment. For us, you see we are running over 100% prefunding and take low risk when it comes to the volumes related to MultiClient.

The challenge we've had in this industry is the supply side, which, I guess, goes for most of the oil service segments in a downturn.

Supply is significantly down from the peak but now 45% versus 50% last quarter. And the reason supply is less down is that there are a couple of new vessels that's come in in the second quarter versus the first quarter. One of them is ours: the Ramform Tethys.

Now this new capacity has been absorbed by the market, given that the volume also has increased. So there's a 10% in both camps here of change in the outlook compared to what we said in Q1. But, of course, the 5% on the capacity side was already indicated in the curve below, as we presented in the first quarter.

So moving to the bid activity. Needless to say, we are still at very low levels. As usual, I remind everybody that this curve is contract only and over the time period of this curve contract share of the total has moved from 80% to probably 50%. So there is an underlying decline in volume for contracts.

And the other thing is that this curve is in dollars. And, of course, there is at least a factor of 3 between peak and trough pricing here in the contract market, so that deflates the curve as well.

But there's one other interesting observation that currently there's a very, very small delta between the leads and the bids level. And we read that as short conversion time from lead to bid. And that's what we see in reality today, too.

What's out there of lead indicators is very much substantial stuff that will be done and is done and is relatively quickly converted to bid and to action. And there is more of that now than before. So, despite that it's low, there are some signs of action that benefits the vessel market now and we believe also going into the next couple of quarters.

The seismic demand is primarily driven by license round, either data needed before or data committed to through a license round. And the demand driver for that is really the governments' action plans and not so much the E&P spending that you see on the oil companies. But, of course, the E&P spending is what delivers the dollars.

But the oil companies will have to make an assessment of whether they want to play in a certain basin or not. And, if they want to play, they want a block, they need seismic. And, therefore, there is some sort of demand driven by the governments' license rounds behind this.

Production seismic is still a share of the market and there is some opportunistic spending.

Looking into the next quarters, most notably there is a decent volume of leads for Q4 and Q1, while it's rather soft when it comes to Asia Pacific and North and South America.

Activity is very much North Atlantic weighted at the moment. As Gottfred mentioned, we steamed five 3D vessels to the North Sea area. We have two 2D vessels in Canada. We have just finished a job in Colombia with Ramform Atlas. And we have two vessels in Asia Pacific.

The guidance.

Cash cost at or below $700 million, which is down from $715 million in the previous quarter.

MultiClient cash investments approximately $225 million. I think it's $5 million down from the last quarter. Still guiding 100% prefunding and 40%, 45% of active 3D capacity planned for MultiClient.

And then CapEx of $225 million, of which a large portion of this is already done in first half, as Gottfred illustrated.

A couple of factors as I'm summing up around the guidance that are important to consider for second half.

One is less CapEx. The other one is more MultiClient, which normally drives more EBITDA relative to when you operate in the contract market. And, in particular, we expect in the third quarter, as Gottfred said, quite a significant increase in the share of activity allocated to MultiClient.

And then, in conclusion and finally, we observe early signs of improved market sentiment and customer dialog; much more specific targeted and with budgets to support it.

We have an industry-leading fleet and technology position that we play from.

Healthy MultiClient performance in light of where the market is today.

Substantial cost reductions.

Improving cash flow expected in second half 2016 due to the front-loaded CapEx in the first half.

And the financial covenants that we have now amended gives us flexibility, with maturities late 2018 with time at our hands, strengthened ability and with an opportunity to play with the market in terms of how we address the 2018 maturities.

And, with that, I hand over to Bard Stenberg to manage the questions.

QUESTIONS AND ANSWERS

Bard Stenberg - *Petroleum Geo-Services ASA - VP Corporate Communications*

Thank you, Jon Erik. I think we can start with questions from the audience here in Oslo if there are any.

Frederik Lunde - *Carnegie Investment Bank - Analyst*

Frederik Lunde, Carnegie. Just on the late sales, (inaudible) this quarter of various locations. If we look at the previous three years you had quite strong sales in Q2 in the North Sea and Europe. They're coming down in the third quarter. So can you shed some light on what you expect for the third quarter? Or was -- this was the margin (inaudible)?

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

I think I will come back to the comment I made earlier that we do have interesting dialog on data sales for the third quarter already. And it's early in the quarter. But, as always, it's hard to say where it ends. But I think the variability between the quarters has always been it's not a firm Q2/Q3 pattern. And then there are also regional variabilities that can alter from year to year. So it's hard to say.

But we think there is an opportunity for a decent MultiClient quarter also in Q3. And then when you have in mind also more capacity allocated and with the prefunding guidance this should be a good basis for a good quarter.

Frederik Lunde - *Carnegie Investment Bank - Analyst*

And all the leverage ratio of 3.1 this quarter. And you have (inaudible) yearend you'll be facing tougher (inaudible) ratio (inaudible), I suppose. How much does improvement in earnings have you (inaudible) in that number? How much headroom do you see?

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

I think you understand that we can't comment specifically on that agreement that we've entered into. The advance is obviously based on our projections of the future. And we can't quantify how much headroom it gives because it would be the same as giving our projection for quarter [sales].

I think that is something that each and every investor and analyst will just have to make their own stab on. We're not guiding on our EBITDA number not even for the year or for the next year, which is those two critical numbers. There's gross debt, which is the least sensitive, in a way, since the adjustment and then there's EBITDA, which is highly dependent on how the market develops. So sorry about that.

Sondre Stormyr - *Danske Bank Markets - Analyst*

Sondre Stormyr, Danske Bank. The rigging of Sanco Sword has been pushed into 2017 and you also have this new-build schedule for Q1 2017. What type of market do you need to see in the next six months to follow that schedule that you currently have lined up?

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

To wind back to the statement when we engaged with Sanco on these two vessels, the plan was to rig Sanco Sword and de-rig Ramform Vanguard.

Since Ramform Vanguard was positioned in the North Sea and Sanco Sword was in Asia and the opportunities emerged in the North Sea, we opted to keep operating Vanguard and not rig Sanco Sword.

So the net of those two is still zero. But it is just becoming a timing issue of when is the time to do the conversion, basically. And at the current we see that coming in 2017.

So the net increase for us is the addition of Ramform Tethys. And we will, during the coming winter, during next year, continue to assess the capacity we have up against the market.

So if we sense there is too much compared to what we can handle, we will just take out another vessel either for a short-term period or cold stack it for a longer time. That's part of playing the capacity we have, basically.

But there's nothing special around the Sanco Sword per se because it's really a one-to-one switch between Vanguard and Sanco Sword. Today we find this the right thing to do.

Sondre Stormyr - *Danske Bank Markets - Analyst*

But if you look at the [parent] which comes in Q1 2017, what type of flexibility you have to push that delivery through?

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

It's come quite far in construction. Our side think it's unlikely there will be any sort of significant delays. Could be a couple of months or something like that. But in the plans today we think Hyperion will come to be active in the North Sea market next year. That's the base plan. Whether it's going to be in March or in May we don't know.

Unidentified Audience Member

(inaudible). You mentioned that in January there was confusion and now there is more predictability as a result of the oil price increase from the low January level.

I do not expect that you have the answer to the breakeven price average for the North Sea or for Norwegian Continental Shelf, but do you see a price level over which this confusion disappears and the stability appears?

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

I don't think there is one magic number in any region because I think the different fields have different triggers. So I think as the oil price rises you will see a gradual increase in activity, and the higher the better, basically.

I don't think there is one threshold saying now everything is on and if you go below everything is off. And I think that's what you start to see playing out here in our segment as well.

So you see when the oil price comes from high $20s to high $40s there is increase in take up and interest. And if it goes another $10 there will be further increase in take up because each reservoir lives its own life, its field has its own parameters and they will trigger on different data points.

But, specifically to the North Sea activity, it's interesting to see on that graph where we show MultiClient revenues per region. And if you look that back over a longer period here, slide 9, the one region that has been pretty stable in revenues through this down cycle is actually the North Sea.

So if you look at that one there's not a lot of fluctuation in terms of interest for seismic data, need for continuing to study the basin, etc., etc. But, of course, you can see a lot of variability on other regions here. That's what I have to that question.

Bard Stenberg - *Petroleum Geo-Services ASA - VP Corporate Communications*

Okay. If there are no further questions from the audience in Oslo we can go to the people on the conference call. Operator, can you help us with the questions from the people on the conference call?

Operator

(Operator Instructions).

Rahul Bhat - *JPMorgan - Analyst*

Rahul Bhat, JPMorgan. Just a couple of questions. Firstly, if I could start with the contract market, how has the demand in the North Sea summer season been compared to last year?

And on the contract market as a whole, why are you decreasing your allocation to MultiClient projects? If it is getting prefunded and you are making cash out of it, why contract pricing is so low?

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

To the first, I think the North Sea activity and pricing, for that matter, is not large. We talk about a very few number of contract surveys, and we did the same last year, and most of it is for the production seismic related.

I think pricing is probably slightly down from last year, but not to the same degree as pricing in general has been down in the contract market globally.

When it comes to the prefunding and why we don't do more since prefunding is high, it's not a given that if we increase the volume in MultiClient that we were able to keep the prefunding as high.

So this will always be a tradeoff of the risks we are prepared to undertake in the MultiClient segment versus the cash we can generate in the contract segment.

So remember there are two factors we have to manage by here. The EBITDA can increase by switching some of the clients significantly and that counts in the leverage ratio calculation but we live off the cash. And you can generate cash from contract without a significant EBITDA contribution but it might be better than the MultiClient at low prefunding.

So we have to have those two in mind all the time when we manage the Company. We live off cash, we live off liquidity but we will also satisfy the covenant ratio.

So we try to have these two parameters in mind when we manage the fleet and the capacity but, in the end, it boils down to where is the demand.

And I think there are statistics out there indicating that the global share of MultiClient this year will be lower than last year in capacity allocation, which is interesting because it did a big leap upwards last year into a higher share of MultiClient. We think statistically this year points to somewhat lower MultiClient volume acquisition wise for 2016.

Rahul Bhat - *JPMorgan - Analyst*

Understood. And then if I could please touch on the covenants. This was just recently negotiated -- renegotiated but I still think on my numbers 2017 looks a bit tight. Could you just probably shed some light on how amenable you think the banks would be to another renegotiation of -- or do you need to probably do some other measures before you go back to the table and renegotiate these covenants?

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

I won't enter into predicting too much around future discussions. I would just reflect on the discussions we have had with the banks on two occasions over the last year or so. And there have been amendments concluded along with our plan and request and with strong support from the bank group.

We have a supportive bank group and we think it is likely that that will be the case also going forward.

Rahul Bhat - *JPMorgan - Analyst*

All right. Perfect. Thank you.

John Olaisen - *ABG Sundal Collier - Analyst*

John Olaisen, ABG. A couple of questions. If I start with the outlook comment or market activity, rather. You said that you see some indications of pent-up client demand, due to oil companies having commitments related to licenses which they have -- where they have postponed seismic activity. And I just wonder, once that pent-up demand turns out to be demand, do you think it's likely to be MultiClients or contract?

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

That's difficult to say. One example where we see that now, based on last year's license round, is here in the North Sea. Despite having decent numbers in the North Sea, there are companies that have been awarded licenses that it opted not to buy 3D immediately, but will eventually do that on the license rounds. And then in the North Sea it will predominantly be MultiClient we talk about.

But there are other parts of the world where this is more likely to be contract work to be acquired, if you like.

So there is a mix here that I don't have a good number for.

The other part of that pent-up demand is 4Ds, where there is currently a significant number of 4Ds, probably approaching 10 in Angola alone, distributed over three, four operators that is planned to be done now the next two years that should have been done last year, or earlier, as an example.

And there are projects pushed out also in the North Sea. These are normally small in squares, decent in volume, because they come with other requirements in terms of operations, and good contributors on the dollar value.

John Olaisen - *ABG Sundal Collier - Analyst*

All right. But, historically, we've always seen that MultiClient market has recovered one -- well, 12 to 18 months before the contract market has. Do you think that will be the same this time around? Or do you think contract could improve earlier this time in this cycle?

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

I think you have good insight, John, as you usually have. And we would agree with you in that assessment that MultiClient is likely to be the first leading indicator of how the market improves. And if we take now us and TGS's indications for second quarter, we might be at the start of something here.

John Olaisen - *ABG Sundal Collier - Analyst*

But when do you think it's realistic to see the first quarter with improved contract prices? I guess Q3 is already gone. Q4 and Q1 is the winter season, where prices usually don't recover. Is Q2 next year realistic to see contract prices up? Or is a one year too early?

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

That could well happen. That could well happen, as we see it today.

John Olaisen - *ABG Sundal Collier - Analyst*

Do you have any indications of demand in Q2? I guess it's probably too early, but do you have any indication for next summer at all?

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

We do. But, as you see from the backlog, it's very limited. But it's too early to call, I think, in terms of this. But I would not at all rule out the opportunity of being able to improve pricing a bit next year.

John Olaisen - *ABG Sundal Collier - Analyst*

And of the vessel booking that we have for the first half next year, is any of that contract? Or is it all MultiClient?

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

It's contract. It's one contract, basically, that extends to Q2.

John Olaisen - *ABG Sundal Collier - Analyst*

And has that got higher price in it? Or is it current prices?

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

I think it's on the margin up, but it's not North Sea and it's not significant.

John Olaisen - *ABG Sundal Collier - Analyst*

Can you tell us where that contract is?

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

I think it's Brazil, as far as I remember.

John Olaisen - *ABG Sundal Collier - Analyst*

It's Brazil. All right, fine. And my final question is a detail on Q2. You say that late sales were strong in North America and Europe. When it comes to North America, was that US or Mexico, or Canada, I guess, where --?

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

It was a mix of Canada and US, as far as I remember, primarily.

John Olaisen - *ABG Sundal Collier - Analyst*

All right. Could you give us an update on Mexico? Is interest picking up in Mexico as well, or not?

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

I don't have the detail, John, to be honest. We have this shared survey spectrum, Schlumberger and us, 2D, which is our investment. So give Rune heads up and then he can answer it on the spectrum call. (laughter) I don't have it.

John Olaisen - *ABG Sundal Collier - Analyst*

Well, all right. Thank you and have a nice summer. Bye-bye.

Teodor Sveen Nilsen - *Swedbank Markets - Analyst*

Teodor Nilsen, Swedbank. A couple of questions on CapEx and the costs. Gottfred stressed the fact that the CapEx will be lower in second half of 2017. Could you give some indications on what the maintenance CapEx will be in 2017?

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

I think that is too early. But I think, on the other hand, we've said repeatedly over a couple of years now that in a difficult market we should be able to keep our maintenance CapEx down to $50 million, maybe bit below that, maybe a little bit above. So I don't have anything more than that to provide.

Teodor Sveen Nilsen - *Swedbank Markets - Analyst*

Okay. With regards to prefunding, you're still guiding on 100% prefunding ratio for 2016. But looks like for both first quarter and second quarter this year prefunding was well above 100%. So should we expect a very low prefunding ratio for second half this year?

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

It depends on what you mean by very low. We aggregate we have 119% year to date. We have lower investment in the first half than what implicitly we guided for the second half. And our guidance is on the full year. So if in any way you mechanically want to get to 100% then we or higher investment in the second quarter, somewhat lower prefunding. Anyway, that's our expectation today.

And then the market will show also whether we end up below or above that. So I'm not sure substantially lower is correct.

Teodor Sveen Nilsen - *Swedbank Markets - Analyst*

Okay. And then finally from me, on slide 9 you show the split for MC revenue. And you highlighted that the MC revenue was the highest in Europe and North West -- sorry, in Europe and North America. Could you indicate the prefunding ratio for those regions?

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

I don't have that in my head, actually.

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

But there is prefunding from both of them. The --

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

Most of our prefunding revenues in the second quarter were from those two regions.

Teodor Sveen Nilsen - *Swedbank Markets - Analyst*

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

Operator

(Operator Instructions).

Morten Nystrom - *Nordea Markets - Analyst*

Morten, Nordea. A lot of my questions have been answered but I have some short questions. Could you give any update on the expected vessel utilization for Q3? I'm wondering whether or not you will move the vessels from North Sea into other regions.

Secondly, do you have any early indications of the working capital development in Q3?

And I think also, last one, Jon Erik, you mentioned these big 4D programs in West Africa. Could you say -- could you be somewhat more specific on the status on this? When do you expect the awards to get to any seismic contractor? Or when do you expect the companies to actually send out the tenders? Thanks.

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

On vessel utilization, we said that we intend to use more of a capacity for MultiClients in Q3. I'm a little bit cautious of indicating in a way how much steaming time because it's down to, in a way, exactly when we end the season on the various vessels in the North Sea.

Jon Erik, unless you want to --?

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

The other part of the question is the vessels will likely stay in the North Sea area to the end of the quarter and then steam out, with one exception, which is Ramform Sterling, which will move to Canada shortly and do one MultiClient 3D up in Canada. So that's the vessel scheduling related to the North Sea.

And the 4Ds, as we understand it today, the first of the 4D/production seismic works in Africa might well be executed late Q4/early Q1 and onwards. That's how we read it as per today. They are not concluded yet in terms of awards or anything like that.

Maybe also the second question. I --

Morten Nystrom - *Nordea Markets - Analyst*

The second question was related to if you could give us any indications on the working capital development in Q3.

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

We have a positive working capital development year to date. There's a fair chance that that will be the case when we get to end of Q3. It's always a bit challenging to guide forward on working capital. It will fluctuate a bit quarter by quarter. But we have been relatively successful in keeping our DSO, day sales outstanding, pretty stable and it is our plan to continue to do so.

So actually the measurement of working capital is a bit depending on how much revenues we are able to generate in the quarter. And I obviously hope for a lot of revenues in September, which would increase our DSO and be negative on working capital but substantially good.

So difficult to guide on that going forward but for the full year we don't expect a negative working capital change for this year.

Morten Nystrom - *Nordea Markets - Analyst*

Okay. If I can have one follow-up question. If you go back to Q2 2015 and look at your order book, your order book sequentially dropped in -- from Q2 to Q3 and another drop, again, in Q4.

Given your comments on the market here, would you say it's fair to assume that your order book of $230 million as end of Q2 should be largely flat or actually increase in Q3 or Q4? Or is that too early to give any indications on? Thank you.

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

That is too early but order book is one of the indicators that can give an early warning of market in recovery. But I can't tell you now what it will be at end of Q3.

Rahul Bhat - *JPMorgan - Analyst*

Rahul, JPMorgan. I just had a short follow-up question. On the contract market and since the last two quarters you've been talking about margins, the last quarter, Gottfred said that it was at EBITDA breakeven level. So I just wanted to confirm if this quarter we had the same level or has it been up or down from that level?

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

It's probably about the same in the second. And, given that we are in the North Sea, probably slightly better pricing in Q3, I would guess as an indication.

Rahul Bhat - *JPMorgan - Analyst*

All right. Thank you. Cheers, guys.

Operator

There are no further questions in the phone queue at this time.

Bard Stenberg - *Petroleum Geo-Services ASA - VP Corporate Communications*

Any further questions from the audience here in Oslo?

Unidentified Audience Member

Last time at the first quarter presentation you indicated that there was some kind of improvement as a result of the climbing up of the oil prices and we have been through a fairly rough quarter, share price wise. What has happened since the end of June is that we have seen a [slopey] oil price.

It doesn't really -- well everybody thought that, okay, since the dollar was something we believed in end of June and then we see it slid a little bit, have you seen any -- can you see -- can you comment on the impression you have? You said slight improvement at this point last time. What do you see now? Are people afraid that the oil price will drop again? Or is it is actually down $4 since the end of June? So --

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

What we pick up in the customer dialog is not really about whether we are $4 up and down currently. The projects we discuss now are part of their long-term thinking. And I think the general expectation of the oil companies now is that oil price will trend upwards.

There's a lot of divergence as to where it will stabilize but, clearly, expectation is at a higher level than it is today. But, clearly, high $40s is enough for many of them to start acting on their seismic ambitions. And that's what we observe in our numbers here.

And I don't think that will swing in and out over the week, whether we are at $47 or $49 or $46 and $50. That's immaterial in the longer picture here.

If we continue to trend up, that's obviously nice. If there's a shock downwards, that could put on the brakes again. But most people expect and plan as if this will continue to stabilize and potentially move upwards going forward. That's how we read it.

Unidentified Audience Member

Okay. So there are players acting on high $40s on the Norwegian Continental Shelf.

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

Yes, in terms of buying seismic, definitely. You see that from the volumes here that we report.

Bard Stenberg - *Petroleum Geo-Services ASA - VP Corporate Communications*

Any further questions? If not, that concludes this presentation on the Q2 and first half 2016 results. Thank you all for participating. I would also like to remind you of the conference call scheduled later today at 2:00 PM CET or 8:00 AM Eastern Time. So thank you, all, and have a nice summer.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.
