



# **Q1 2020 Results Presentation**

Tuesday, 12<sup>th</sup> May 2020

## **Introduction**

Christophe Barnini

*Group Communications and Investor Relations, CGG*

Thank you. Good morning ladies and gentlemen. Welcome to this presentation of CGG's first quarter 2020 results. The call today is hosted from France where Ms Sophie Zurquiyah, Chief Executive Officer and Yuri Baidoukov, Chief Financial Officer will provide an overview of the first quarter 2020 results as well as provide comments on our outlook. As a reminder, some of the conformation contains forward-looking statements, including without limitations statements about CGG plans, strategies and prospects. These forward-looking statements are subject to risk and uncertainties that may change at every time and therefore the actual results may differ materially from those that were expected. Following the overview of the quarter, we would be please to take your questions. And now I will turn the call over to Sophie.

## **Q1 2020 Financial Results**

Sophie Zurquiyah

*CEO, CGG*

Thank you, Christophe. Good morning ladies and gentlemen and thank you for participating in this Q1 2020 conference call. Our presentation will cover our first quarter 2020 operational and financial results, our market environment, the unprecedented crisis that we are experiencing and our action plan to adapt to this new reality. On March 6, we released our Q4 results and our 2020 guidance. At that time, we were still envisaging relative stability in the market and were shaping up CGG for a year of further development with recruiting plans, a healthy pipeline of new geoscience technologies, well prefunded multi-client programs and new equipment products. Science then, two compounding crisis dramatically effected the global economy and especially the oil and gas industry, severely degrading our business environment. The first crisis was triggered by the global COVID-19 pandemic, the second was caused by the rapid drop of oil price by more than 50% to the current levels of around \$30 per barrel, which resulted from the combined impact of the significant decline in oil demand caused by the COVID-19 and the market share which was led by Saudi Arabia in Russia increasing their supply.

In just a few weeks, our business environment totally changed. At current, as we navigate through these unprecedented cries, we have little visibility on how long the oil prices will remain at these levels. Most forecasters are predicting it to remain low for the next 12 to 18 months and of course these market conditions and outlooks are having a significant impact on all our clients. On average, oil and gas companies have announced reductions in their planned 2020 capital spending of around 25 to 30%. In this business environment, we have changed our plan and are preparing and adapting for our businesses to effectively manage through what we currently expect to be a challenging 2020. I'm glad that we made significant progress well ahead of our plans last year towards the strategic objective to

becoming asset light people data and technology company with a much leaner organisation. A key part of the rationale behind our CGG 2021 strategy that we launched in 2018 was to prepare the company to be better positioned to manage through the cycles. I am encouraged now that we are asset light, most of the subsurface imaging projects that we deliver are linked to development and production, our multi-client library is positioned in proven, developed and mature sedimentary basins. And our equipment business has the largest install base, is strongly[?] in the world's most resilient location and has a flexible manufacturing organisation. I'm also pleased that we built a strong backlog in 2019 and that CGG has 624 million of cash in the Bank at the end of March and no debt to reimburse before 2023.

### **Covid-19 situation**

I'll start the presentation with slide 5. During the ongoing COVID-19 pandemic, the CGG – priority for CGG remains focussed on the health, safety and wellbeing of our employees and all stakeholders. At the global and local level, we are constantly monitoring the evolution of the situation and ensuring that measures mandated by the government and recommended by experts are in place. This enables us to combat the spread of the virus and ensure that our work environment is as safe as possible for our employees who need to be at the workplace. We have been able to ensure strong business continuity through the proactive measures that we implemented in our facilities, operations and to enable the vast majority of our employees to work effectively from home. In geoscience, we continue to deliver projects on time and all our data centres are operational. Our multi-client programs in Brazil, North Sea, US and Australia are all ongoing and did not experience any significant interruptions. Equipment manufacturing plants in France and in the US were shut down in mid-March and are gradually amping up while our plant in China resumed normal production after closing for two weeks in January.

As countries around the world consider reopening, we are implementing our back to work plans, which includes most of our employees continuing to work from home where possible. As the situation changes daily, we continue to monitor it closely, globally and locally, updating our plans as appropriate and encouraging all teams to work within local health authority updates and guidelines.

### **Q1 2020 key highlights**

I'll now move to slide 6. We delivered a good Q1 with solid business performance in geoscience and multi-client, while equipment saw lower demand than Q1 last year, which if you remember had strong deliveries in the Middle East. Equipment was also impacted by COVID-19, which created some delays with supply, manufacturing and logistics. Our revenue in Q1 was down 4% year on year compared to Q1 2019. Our EBITDA was higher than last year and more importantly, we generated a +17 million net cash flows this quarter despite a 50% increase in CAPEX, mainly in multi-client. The Group net loss for the quarter was 98 million, including 70 million impairment mainly related to our multi-client library that was based on deteriorating market conditions as a result of the pandemic and 27 million loss from this continued operation.

**GGR key financial indicators**

I will now cover our Q1 2020 operational achievements by reporting segment. So moving on to slide 7.

GGR had a good start to the year, as we benefited from solid backlog in geoscience and from healthy pipeline of well prefunded multi-client programs. Overall GGR top line increased 9%, EBITDA increased 17% and the EBITDA margin was high at 62%.

**Geoscience key business indicators**

Going on to slide 8. Geoscience total production was 125 million in Q1, quite stable year on year. Backlog was 256 million, not including the recent Repsol dedicate centre award. And our HPC capacity has now reached 250 petaflops.

**Geoscience operational highlights**

Continuing on to slide 9, market demand for geoscience was solid across all regions at the beginning of the year, as very high resolution images of the reservoir were required for near field exploration, development and reservoir management. I have pointed out in earlier calls our technical leadership in marine and ocean bottom nodes imaging. We are now seeing more and more clients requiring higher quality land imaging as well. Land data can be much more difficult to process than marine data because it is much noisier and is impacted by near-surface effects. Again, based on our technical leadership, we can provide significant improvements with our advanced technology for high density data sets such as in the Middle East. Recently, we are making good progress here and it can provide our clients with the ability to see important details in the sub surface that could not be seen before.

Looking at 2020, we know that our clients will spend less and postpone some of their plans but they will keep working on their most important projects to high grade their portfolios. One interesting data point is that most of the projects we deliver in subsurface imagining are related to producing fields and fields undergoing development. These projects are important to our clients, even in the current environment, and our technology provides much better understanding of the subsurface and therefore is of significant value to them as they decide on drilling locations, development opportunities or producing plans. A top priority in geoscience is to maintain our technology leadership.

**Dedicated Imaging Centres a "Win-Win" Strategy**

I'll move on to slide 10 now with a focus on dedicated imaging centres. Around 15% of our geoscience revenue comes from our dedicated imaging centres. This is a long-term business model where CGG provides a dedicated team of experienced geoscientists and experts together with access to our leading technology and global expertise to one client on his premises. With this win-win business approach, the procurement process is streamlined and clients secure on-demand access to our advanced seismic imaging for CGG gained stable revenue and visibility in both good and challenging times. The dedicated processing centres provide our clients with a strong technological edge and accelerate project turnaround times, both of which help them meet their business objectives. More importantly, this creates a long-term collaboration environment where we gain a deep understanding of our client's challenges and objectives. Together with their GNG teams, we build relationships based on trust and superior service performance. Today, we operate eight dedicated centres worldwide and, for example, we've been in Oman for more than 25 years working inside [inaudible]

offices. And we recently renewed two dedicated centres, one in France for Total and the other in Spain for Repsol.

### **Multi-Client key business indicators**

I'll now go to slide 11 to cover the multi-clients. Q1 numbers reflect the fact that we started the year with a healthy pipeline of multi-client projects with good prefunding. We were quite active this quarter with multi-client CAPEX increasing to 67 million with an 85% prefunding rate. After sales were 47 million this quarter, stable year on year and solid across regions. Towards the end of March, we started to see these sets of clients reprioritising their investments and following the collapse of oil price at the end of March, we performed an impairment review of our multi-client rivalry, which resulted in a non-cash charge of 69 million.

### **Multi-Client - worldwide footprint in key mature basins**

Going on to slide 12 now. We had four ongoing multi-client projects during the quarter, including two land surveys, Bayou Boeuf and Central Basin Platform in the US. Despite the announced reduction of CAPEX by US independents, these two US land projects are well prefunded. One has now been completed and we have no plans for additional projects in US land this year. In Marine, there are two ongoing stream surveys, Nebula in Brazil, a 15,00 km<sup>2</sup> program in the Central Basin that attracted high interest from clients and Gippsland in Australia. The program in the Gippsland mature producing basin. At the end of March, we started a new ocean bottom node survey in the cornerstone area of the UK North Sea. This program also has good prefunding. After a solid Q1, we have a strong portfolio of ongoing committed projects. Looking at the rest of 2020 and given the current downturn, we reviewed our project pipeline and decided not to pursue projects that had not secured an acceptable level of prefunding. These translate into 16 million reduction of 2020 multi-client CAPEX versus our original guidance for around 225 million multi-client CAPEX in 2020 with a solid prefunding rate of more than 75%.

### **Equipment key financial indicators**

Moving on to slide 13 with equipment. Equipment segment revenue was 75 million, down 29% compared to last year. Land equipment sales represented 71% of total sales, marine equipment sales represented 17% of total sales, mainly spare parts, and downhole equipment sales was 7 million on lower demand for artificial lift for unconditional project in the US lower 48. After the month of March, when two of our manufacturing plants were shut down due to COVID-19, work is gradually resuming in order to manufacture and ship our active orders. Equipment segment EBITDA was 8 million and 11% margin. Equipment segment operating income was at breakeven, which is consistent with this break-even point.

### **Equipment overview**

I'll move on to slide 14 now. During the quarter, equipment delivered over 80,000 508XT land data acquisition channels, mainly in Russia, India and North Africa. At this time, the tended mega-crews in the Middle East could be delayed until near the end of the year or perhaps into 2021 but none have been cancelled. Demand for marine equipment, both streams and nodes is expected to remain low in 2020. In our non-oil and gas segments, shore tests continue to progress well for [inaudible] structural health monitoring node, photo type designed to the growing high-end infrastructure monitoring market.

I will now give the floor to Yuri for more financial highlights.

## Financial Review

Yuri Baidoukov

*CFO, CGG*

Thank you, Sophie. Good morning ladies and gentlemen. Looking at the consolidated P&L on slide 16 for our Q1 2020 results, segment revenue from our ne profile amounted to 271 million, down 4% year on year. GRR contribution was 197 million, a 10% increase year on year with 73% weight compared to 64% weight in Q1 2019. Geoscience revenue was 93 million, a 2% increase year on year and multi-client sales were at 104 million, increasing 17% year on year driven by solid pipeline of well prefunded projects. Equipment revenue contribution was 75 million down 29% year on year with 27% weight versus 37% weight last year. A segment EBITDA was 123 million up 3% year on year with 45% margin versus 42% margin in Q1 2019. Segment operating income was -31 million, including 70 million impairments primarily related to our multi-client library in frontier exploration areas in Africa as the service will be less attractive to new players in current oil pricing environment. Excluding this impairment, our segment operating income was +34 million with 14% margin compared to 11 million with 4% margin in Q1 2019. IFRS adjustment at operating income level was -9 million and IFRS operating income after IFRS 15 adjustment was -14 million. Looking at our OPEX cost, our [inaudible] costs were 4 million, lowered by 26%, G&A costs were 19 million, lowered by 11% and marketing and sales costs were stable at 9 million, lower by 8% year on year on cost reductions and favourable euro-USD exchange rate. Cost of financial debt was 33 million with a noncash [inaudible] component of 11 million and was flat year on year. Income taxes were 5 million, net loss from continuing operation was 72 million, including impartments, and net loss from continued operations was 27 million. Group net loss was 98 million.

### Sound financial situation

Moving to slide 17 cash flow statement. In Q1 2020, segment operating cash flow generation decreased to 145 million compared to 204 million in Q1 2019 due to a much lower positive change in working capital and provisions. Our multi-client cash CAPEX of 67 million was 68% higher than last year on the back of solid portfolio of ongoing well prefunded projects offshore Brazil and Australia and onshore US. Q1 2020 cash prefunding rate was 86%. Industrial cash CAPEX and R&D cost in our geoscience and equipment business were slightly up year on year at 21 million. Q1 2020 cash cost of debt was flat year on year at 7 million. Net cash flow from discontinued operations was positive at 9 million, a significant improvement from last year. Q1 2020 cash costs related to the implementation of CGG 2021 plan were 28 million.

Overall, we generated +17 million group net cash flow this quarter. Our liquidity increased to 624 million from 611 million at the end of December 2019. At the end of March 2020, our gross debt was 1,329 billion or 1,164 billion before IFRS 16 with the following breakdown: 607 million of 1<sup>st</sup> lien dollar and euro bonds maturing in April 2023, 529 million of 2<sup>nd</sup> lien dollar and euro bonds maturing in February of 2024, 28 million of other items mainly include interest and 165 million of leased liabilities under IFRS 16. Our financial leverage net debt to

shareholder equity was at 49% or 37% before IFRS 16 versus 46% at the end of 2019 and segment leverage was at 0.8x net debt to LTM EBITDA at March end 2020 before IFRS 16.

Looking at the Group balance sheet on slide 18 at the end of March 2020, our capital employed was 2.2 billion, down 121 million from the end of last year. Networking capital after IFRS 16 was at 197 million, up 49 million from 148 million at the end of December 2019. Receivables were 315 million down 121 million from 436 million at December 2019 and inventories were 207 million, slightly up by 7 million at the end of December last year. Good will was flat at 1.2 billion corresponding to 55% of total capital employed and 83% of shareholders' equity. Our multi-client library net book value after IFRS 16 was at 475 million with segment and 3.18 million. This included 69 million impairments and the library was down from 531 million at December end 2019. Multi-client segment amortisation rate was at 55% in Q1 2020. Other assets at 5.16 million were up 25 million from 491 million at the end of December 2019 with property plant and equipment net book value at 288 million down from 300 million at December and 2019. Including IFRS 16 right of use. Other intangible assets at 158 million were slightly down versus 160 million at December end 2019. And other non-current assets at 70 million were up 40 million from December end 2019 mostly from 49 million of shares water related than the nodes[?]. Other current liabilities were at 199 million up by 137 million from 62 million at December end 2019 with recognition of liabilities related to capacity agreement following the closing of marine strategic partnership transaction with Shearwater in January 2020. 139 million of these liabilities were outstanding at the end of March 2020. Shareholder equity and minority interest was at 1.5 billion, including 46 million minority interest mainly related to [inaudible] joint venture. IN those turbulent and uncertain times of crisis, preservation of liquidity is becoming more imperative than ever. This is why we continue to stay focussed on generative cash and preserving our liquidity.

Now I hand the floor back to Sophie for our update on our business outlook and conclusions.

## **Outlook and Conclusion**

Sophie Zurquiyah

*CEO, CGG*

### **E&P trends: severe crisis following a modest recovery**

Thank you, Yuri. Now we're going on to slide 20. While it's still too early to fully estimate the impacts of this severe and unprecedented crisis for CGG's business in 2020, the recent announcement from our clients indicate upstream CAPEX cuts in the range of 25 to 30% in 2020. In broad terms, the COVID-19 pandemic has significantly reduced consumption of hydrocarbon at least temporarily as the world economies were hit hard by the forced activity slowdowns in most countries. As a result, there is a large unbalance between oil demand and supply which has resulted in a very low oil price environment. We expect the situation to take time to balance and anticipate it would largely depend on how successful countries are in dealing with the pandemic and a level of support to the economies. Of course, this outlook has significant impact on the actions of our clients, the oil and gas companies. At current, we expect much more significant reduction in the US land market where we have a fairly lower exposure while international CAPEX will drop less. We also expect the Middle East national oil companies to take a longer term view and therefore their sending should be more resilient.

**2020 Business outlook**

Moving on to slide 21 for the business outlook. We are continuing to speak with our clients to gain more visibility around their planned reductions in spend and how these reductions will ultimately affect their geoscience and data purchase plans for GGR. Equipment is also assessing the response from the geophysical acquisition contractors. In previous cycles the acquisition contracts has sharply decreased their CAPEX as they went into survival mode. Overall, looking at business activity and outlook in 2020, we expect that geoscience should experience gradual reduction in revenue, benefiting from its current backlog. As a reminder, in geoscience, we focus on the high end segments of the market. Multi-client, as mentioned earlier, has a healthy pipeline of well-identified and prefunded programs in proven, developed and mature sedimentary basins. These will carry us through the year. This year was different from the previous as we had less unallocated CAPEX to spend but also expect the current market environment to impact after sales and we have already seen the first signs of this in March. The equipment business is expected to be impacted by reduced demand for lend equipment, the marine stream [inaudible] replacement cycle and demand for our new OBN offerings is expected to be delayed at least the second-half of 2021. We don't have as much visibility and equipment but there is typically only a few months of backlog but as I mentioned earlier, at current the mega-crew tenders in Middle East are maintained and we could have the opportunity to make sales in Q4 this year.

**2020 Adaptation plan & Focus on cash preservation**

Moving on to 2022 – on slide 22, sorry. It's clear that the CGG business will be significantly impacted this year given the current environment. Therefore, we are reacting fast and focusing on what we can control. We will continue managing the company forecast with a focus on this preservation. And to achieve this, we are reducing our 2020 CAPEX by around 75 million or 25% compared to our original guidance. With reduction in multi-client cash CAPEX by 60 million to around 2025 million and the industrial and development CAPEX to 70 million. We are reducing our 2020 cash costs across the entire organisation by 16 to 20% annualised. This will be achieved by implementing a leaner organisation, finishing the implementation of our CGG 2021 cost reduction plan and reducing our discretionary spend across the board. At the same time, we will preserve our key R&D and CAPEX investments that are core to maintaining the technology co-leadership of our businesses. We are also pursuing ongoing monetisation of the remaining data acquisition assets. As we are evolving in a rapidly changing and volatile environment, we are continuing to monitor the situation closely and are preparing further plans that we will communicate and implement depending on the evolution.

**Conclusion**

Now on slide 23 and in conclusion, the business environment is expected to be much more difficult and volatile in 2020. Fortunately, CGG is in much better shape to weather this storm. We have transitioned to an asset light module, which removed the burden of reduced activity in the proprietary acquisition market. We have good backlog, which gives us more time to adapt and size our response. We are well-positioned in the more resilient segments of our markets and more importantly, we have 624 million in cash on hand and no debt repayments before 2023. Our technology remains fundamental to our clients' success as we play a significant part in the efficiency and effectiveness of their business, they are still looking for

those hard to image hydrocarbons and how to produce them and we provide significant value. And finally, I know that in every crisis there is an opportunity and we are taking the necessary actions to ensure that this crisis is not wasted.

Thank you for your interest and we are now ready to take your questions.

## Q&A

**Jean-Luc Romain:** Good morning. I hope [inaudible]. I have two questions if that's possible. First is regarding the depreciations of the multi-client library. What were the regions most affected by the depreciations.

Secondly, you gave recently an update of the order book at the 1<sup>st</sup> April, backlog was 278 million. How did it evolve since then for geoscience?

**Sophie Zurquiyah:** So Yuri, I'll let you comment on those.

**Yuri Baidoukov:** Yeah, sure. So the – good morning. And we also hope that everybody is well and healthy. So regarding the impairment of multi-client libraries, the main regions were the regions of frontier exploration and we looked at the impaired surveys in Africa as well as Ireland. So these were the main regions relate dot the impairment.

Now, regarding the backlog, so as you could see on slide – on slide 8, so the backlog went down from 278 million to 256 million in our geoscience business as of the end of March.

**Jean-Luc Romain:** Thank you very much.

**Yuri Baidoukov:** This backlog does not include – as Sophie mentioned, this backlog did not include the recent award of – extension of our data processing centre with Repsol in Spain.

**Jean-Luc Romain:** Okay. Thank you so much.

**Jim Roger (Kepler Cheuvreux):** Yes, hi. It's Jim Roger[?] from Kepler Cheuvreux. One question on the multi-client activities please. You say that basically you reduced your activity by 60 million in terms of budget for this year. Can you precise please, let's say, the region where the survey is scheduled for 2020 as being if not concerned postponed[?] where basically are you concerning some activities?

**Sophie Zurquiyah:** Sure.

**Jim Roger:** And for the equipment, the follow-up please, it's just basically you mentioned the last survey scheduled in the Middle East and there is especially from, what I think, [inaudible] survey in Saudi Arabia that were scheduled to be awarded in May. I was just wondering if with the visibility that you have, is it postponed or is it still possible to see those survey awarded in May? Thanks.

**Sophie Zurquiyah:** Bonjour. Yeah, thanks to the questions. I'll take those. So on the multi-client side, as I mentioned in the – when we introduced the euro, we had a much higher backlog than usual and this is pretty much what we're delivering right now with all these ongoing surveys. The only – essentially, if I look at large numbers, the main flexibility we had was with the summer surveys in Norway. So we always have a large pipeline of different opportunities but we always generally do a survey during the summer in the North Sea region and this year we had plans in Norway and so far we've just decided not to push the button

just because we don't have – we're not sure that we'll get the prefunding. Now if the clients that we're targeting were coming back with signed contracts perhaps and if there was a vessel available, perhaps we would reconsider that position but for now we've decided to not pursue that survey. So that's the multi-client one. And of course, here and there we've just cancelled a few projects here and there but this was the big chunk.

Now on the equipment side, you are correct. The main surveys that we're targeting are the mega-crews in Saudi Arabia. So far the bids have been submitted. Now what we don't know is when they plan to respond to those bids and in turn, when that could trigger orders but I mentioned in my notes that I do believe that there is still a chance that we see some orders this year and into Q1 next year. At least that's what we see so far.

**Jim Roger:** Okay. Okay. Thanks a lot for that. Have a very good day.

**Sophie Zurquiyah:** And it might not be – and they might decide to cut it in half, right, so we revealed the numbers a bit lower, right, because they've got these tenders so perhaps they – you know, the decision might be that only one goes on or two, maybe not the three. So we've kind of toned down our ambitions, let's say, but we're still counting on some of that happening in Q4.

**Jim Roger:** Okay but at the end it means that at your knowledge, there is no official delay. It's a possibility that there is nothing official.

**Sophie Zurquiyah:** No.

**Jim Roger:** Okay. Thanks a lot for that.

**Sahar Islam[?]:** Morning. Thank you for taking my questions. One to begin with for you, Sophie, if that's okay please. Would you mind commenting on pricing in geoscience and equipment and whether you're seeing some pricing pressure there with your recent conversations from clients. And then secondly for Yuri, would you mind giving us a bit of colour on your expectations for net cash flow in 2020 and how long discontinued operations would contribute like it did in 1Q please. Thank you.

**Sophie Zurquiyah:** Yeah. Yeah. Of course, good morning Sarah. The – it's interesting – this is an interesting question because what we're seeing in this crisis is a different response from clients and a different response from the oilfield service industry in general. So in that respect, the clients have reacted very fast because they've been ready always with different scenario and always with the scenario with lower oil price, so the reaction has been very quick. And their reaction is actually more of concern to their supplier base and especially in the geoscience world recognising that we've really been through difficult times. The peak has been more around, you know, we want to make sure this ecosystem continues to survive and how can we work collaboratively and how do we work together to, of course, with the results to be more efficient and eventually get the cost efficiencies there but it's not been as much a direct, you know, we need 20% down or 30% now we need prices down because I think they recognise that with the price concessions have been given and there's not much more to give. And now if you look at the OFS response of those service companies, they're responding by removing capacity, right. You're seeing vessels being stacked[?] and for us, we don't have vessels anymore but our response would be similar. We're not going to be ready to give any significant price concessions just because we can't afford it and we would rather shrink and

reduce our – you know, reduce our scope rather than give those price concessions. So that's reduced fine. Bit of a different speak and conversation. Other than Middle East, where the procurement is more traditional. So we did receive the letters – blanket letters saying, like, you need to reduce your prices by 30% or something like that but then it just starts – it's the beginning of a conversation.

On the equipment side, I wouldn't say we've seen any pressure on pricing to be honest. It's a different – it's either the client needs the equipment or they don't need the equipment. And for now, I think they're just absorbing the news and deciding what to do so there is much less – much more quiet, I would say. So we haven't had any indications of pricing issues there.

So I'll let – I'll leave the floor to Yuri, if you want to address the next cash.

**Yuri Baidoukov:** Yeah, sure. Good morning Sarah. Like all other companies in our sector or business and industry, we still have very low visibility for the rest of this year. So that's why we are not providing any specifics guidance, as you saw. We're focusing on what we can control. And of course, our focus remains on generating cash as much as we can and reducing our cash costs and CAPEX to the extent we can and obviously preserving our liquidity. So with that in mind, basically, I – we cannot give any specific targets but again, our objective remains the same. Our focus remains the same, preserving liquidity and generating as much cash as we can and reducing cash costs. Now there is one specific item, which we've been talking about, and this is the implementation of CGG 2021 plan and the cash costs related to that.

So for that particular element – and it's part of discontinued operations, of course – we're looking this year at the cash cost of between \$70 million to \$80 million, which is broadly in line with the previous guidance that we gave.

**Sophie Zurquiyah:** Yeah, I'd like to – Yuri, I'd like, and for you, Sahar, just to point an element that I think we – was very favourable last year, which is the working cap. We had a very favourable working cap. And then we pointed out, I think, that this year the working cap will be less favourable just because of the cyclicity of what we'll see.

Last year, if you remember in 2019, it was a year that was very front-loaded. We had a lot of very strong equipment sales early in the year. We had very strong Multi-Client sales in Q3, which is quite unusual. And as a result of that, our Q4 sales were not as high. So we're entering 2020 with a sort of a more normal cycle, but we're not benefiting this year so much of the sales, the Multi-Client sales from Q4, and equipment is going back into more and Multi-Client a more normal Q4 back-loading, if you want. So this whole sequence of the revenue is resulting in an unfavourable working cap this year.

**Sahar Islam:** Thank you. Just if I could clarify quickly on the discontinued operations comment Yuri made. That cost of \$70 million to \$80 million, is that the total cost? So for example, the \$9 million positive we saw this morning, we should, at the end of the year, expect to be at a negative \$70 million to \$80 million all in sort of discontinued operations cash?

**Yuri Baidoukov:** Yes, Sahar. So this is just the CGG 2021 cash cost related to the implementation of the plan. We – of course, we already completed the exit from marine acquisition and land acquisition business. We still have a small Multi-Physics business. So in

other words, again, the cash burn from – operationally, from this business, small business, will be fairly low. So in other words, this \$70 million to \$80 million range would be, I guess, more or less sufficient to absorb everything.

**Sahar Islam:** Very helpful. Thank you very much.

**Sophie Zurquiyah:** Now I'll point out to Sahar in addition to that, we'll have more – it's not CGG 2021, but we'll have non-recurring costs associated with some of the reductions that we're going to be implementing this year, but to a lower number.

**Sahar Islam:** Okay, great. Thank you.

**Guillaume Delaby (Société Générale):** Yes. Good morning. To be honest, all my questions have been already answered. So basically I turn it over. But congratulations for your very solid Q1 results.

**Sophie Zurquiyah:** Merci Guillaume.

**Yuri Baidoukov:** Yeah. Thank you, Guillaume.

**Christopher Møllerløgkken (Carnegie):** Yes, good morning. This is Christopher Møllerløgkken in Carnegie. Could you please describe the current situations for the factories you have in Sercel globally? Are they up and running? Have they been closed by COVID-19? How do you view that business going forward? Thank you.

**Sophie Zurquiyah:** Yes, sure. Thank you, Christopher, and good morning. The – so we have essentially big factories in France, larger manufacturing comes from France, from the US for the marine side. So France is more on the land side. And then we have our geophones in Sercel JunFeng in China. So the Chinese factory was closed a couple of weeks in January and was resumed fairly quickly for production.

France and US were more or less shut down mid-March for I'd say three weeks. And during the month of April, we were gradually going back to work. So we're probably right now at around 30% capacity overall, and we are prioritising our current orders. But now if you read the news in France, so the sort of deconfinement has started as of yesterday. So we could definitely continue to ramp up and ensure we deliver our backlog, which is a priority.

And as I said, the order intake in April, which is not going to be a surprise to any of you, has been very low because clients are just digesting – across the board, they're digesting the new information, the new budgets and everything. So the backlog that we've got in into April was really things that were almost done. We didn't see much many new things. But I do expect things will start to go back to more normal mode towards the end of this quarter.

**Christopher Møllerløgkken:** And a second question. There has been attention on the crew changes in the seismic industry given the significant travel restrictions. Your relative marine acquisitions, but you're obviously chartering vessels when you do Multi-Client. Have you seen any impact on your operations that there's been difficulties changing crews globally?

**Sophie Zurquiyah:** It's a good question that I've been super impressed, and I did share this with Shearwater and that was quite impressed in how they're dealing with the COVID pandemic, and especially given the additional challenge of having to rotate the crews across different frontiers and – which is now becoming more difficult. So no, we haven't seen any interruption.

And with those, I mean, in – across the board pretty much. In the US, we were able to continue. The marine are uninterrupted, and we even started the ocean bottom node, and that's with max size in the North Sea during the pandemic, during the shutdown, and they've done a great job too. So we're quite impressed.

**Christopher Møllerlækken:** And final question. Geographically, where will you invest in Multi-Client in the second quarter?

**Sophie Zurquiyah:** The Multi-Client is pretty much what the projects that you're – that we've described. So we're not going to really add any big projects. So we've got Brazil, which is a continuation from last year. So we'll continue to invest in Brazil. We've got our North Sea nodes project, which we'll finish. We've got the US land project, which is about 70% completed. That will finish. And then we'll finish our Australian project.

In terms of new start-up projects, probably some reprocessing that we're looking at. We did launch a reprocessing project in the Gulf of Mexico. This is where we have high-end, if you want, datasets that will benefit from really perhaps more than other datasets from these latest technologies.

We're looking at perhaps reprocessing small bits and pieces of stack side of our stack size surveys, which – I mean, again it all depends of the level of interest of our clients. But this is going to be more marginal in small projects. Of course, in the meantime, we continue discussing with clients. If we do see more interest in Brazil, for example, perhaps they could do more or more interest for – like the Norway I was mentioning, right now, we don't have it in our plans.

But let's say, clients come up with pre-funding decent – I mean, high level of pre-funding, we might reconsider that position. Of course, it would now require being able to access a vessel, which is going to be more and more difficult as the acquisition companies are starting to start their vessels.

**Christopher Møllerlækken:** Thank you.

**Jean-François Granjon (ODDO BHF):** Yes. Jean-François Granjon from ODDO BHF. Three questions, please. Could you come back on the write-off on the depreciation? Do you see any risk to see another write-off in the next quarter? The second question, regarding the Geoscience business. You mentioned a gradual decrease during the year after a pretty good Q1 with 2% growth for the sales and 11% for the treatment. Could you give us or could you quantify the decrease expected for this business? Could you reintegrate the decrease in the same magnitude as the decrease of the CapEx or not? And last question. Could you give us, sorry, a trend for the business in April for each division? Thank you.

**Sophie Zurquiyah:** Okay. I'll – perhaps I'll comment on the Geoscience business trends and the trends in April, and I'll let afterwards Yuri comment on other depreciation. The – so on the Geoscience business, typically we have six months of coverage and that gives us a lot more resilience. And typically, when we enter a quarter, we're covered, I mean, like 80%, 90%.

And, of course, as you look at upcoming quarters, that number decreases. I mean, I'm not going to give you sort of the coverage for the full year, but it is a number that decreases. So of course for Q4, we're not as covered as we are for Q2.

Now the typical business dynamic of GGR, which includes Geoscience and Multi-Client, is to more or less track the trends of the E&P CapEx of our clients. So here more, of course, the E&P CapEx international or outside the US land, which is a bit of a different things where we don't play too much. But typically with different time lags, Geoscience ends up seeing the same kinds of decreases, but with a bit of a lag because of that backlog, where the Multi-Client sees it earlier because of the short fuse of the after-sales.

But on aggregate, GGR sees the similar trend to the – I mean, has been at least seeing the similar trend for the last, let's say, eight to 10 years of the E&P CapEx.

Now the trend in April, I don't think are meaningful because it's not – we can't judge a business on a month-to-month. Typically, again, in Geoscience and Multi-Client pre-funding, we have a very strong backlog, and that's not going away. Perhaps I should have mentioned the good news is that we haven't seen any order cancellations. So we could consider that that backlog is secure, and we're focused on delivering it. And so we've got that.

Now in terms of new order intake, April had been very quiet across the board pretty much as everyone is digesting – all of our clients are digesting the information, reprioritising their projects. We're talking at different levels and trying to understand how the CapEx cuts actually translate to Geoscience. But things go hand-in-hand.

So for example, you have a client decides to not do an FID or just to delay an FID for a big project, now that FID was associated perhaps with an ocean bottom node survey. So what that does is that just delays the ocean bottom survey and perhaps we were going to process the data. So we're not going to process the data.

I think just the organisations need time to understand how those high-level decisions to postpone big projects or move – or just to cancel them really impacts the different bits and pieces in drilling, in geoscience, in wells and across the board. So we don't – we haven't seen the full extent of that. What we've continued to see come in is just whatever was really already at the finish line than that Repsol contract had been ongoing for a month. So this is something that we just finished. But I was quite pleased to see that those clients just decided to still move on.

Now the – an equipment is, as you know, is the most volatile part of our business. However, it is still carried by different range of countries. You've got Russia. You've got North Africa. You've got India. So it's a really large install base. And so far activity is still keeping on a bit strangely. And so we're still delivering orders for the spare parts.

Now of course, large systems and large CapEx investment will, for sure, be delayed other than this Middle East I was pointing to.

Now on the depreciation, I'll let Yuri comment. But quickly, you have part of your answer in the net book value. It's a very recent and fresh data library as a result of our write-off. But go ahead, Yuri.

**Yuri Baidoukov:** Yeah, sure. Good morning, Jean-François. So the – yes, regarding the Multi-Client library itself, we performed the impairments in Q1. And basically, you'll already see the results. What we're – what we will do though at the end of H1 is perform the impairment testing of our goodwill. So still remains to be seen what comes out of it. But at year-end 2019, we had significant room in all our cash generation – generating units. But of

course, we have to and we will perform the impairment testing of our goodwill at the end of the second quarter.

**Jean-François Granjon:** Okay. Thank you very much.

**Yuri Baidoukov:** Thank you.

**Sophie Zurquiyah:** Thank you, Jean-François.

**Mick Pickup (Barclays):** Good morning, everybody. It's Mick here from Barclays. A couple of questions, if I may. Firstly, can you just talk about your commitments to Shearwater for capacity versus your current spending plans? How do those two match-up? And what impacts can we see? And secondly, you talked about opportunities at the end of the conversation, Sophie. Is that opportunities in for advancements of technological offering, or are we actually looking at inorganic bolt-ons, which may become apparent as we go through this crisis?

**Sophie Zurquiyah:** Okay. Well, good morning, Mick.

**Mick Pickup:** Good morning.

**Sophie Zurquiyah:** So you've caught that comment at the end, which was open-ended. So the commitment to Shearwater, yes, we are committed to using 24 vessel months with some level of flexibility for month that we could ship from one year to the other. If we do the level of CapEx that I mentioned, we would not be able to do that for 20 months. And as a result, we would be paying a penalty. But again, and that's why we're always doing that trade-off of what's the best for CGG, right? Is there a project with decent – with good pre-funding that would avoid that penalty, and we would – in front of that, we would have data.

But it is – I could guarantee you, it is not the same amount of pressure that we – from when we had the vessels. When you carry the weight of the vessels, the pressure is much higher on your Multi-Client doing surveys that aren't necessarily the best survey. But now we don't put ourselves a lot of pressure to be able to find those surveys. If we do, we do. If we don't, we don't. This is something we could manage.

But as it is today, we wouldn't be able to fulfil the full commitment for 2020 with the current CapEx I mentioned. The – we were just missing a bit.

Now on the opportunities, I think we have the capability to maintain – I would say, the first opportunity is organic and to consolidate our position in the market. If you look at the landscape, we're leading. I mean, we're perhaps not are the leaders in every of our business, but we're kind of leading. And we have the capability to continue to invest in our own R&D and technology to advance it. So we'll continue advancing our Geoscience technology. We'll continue investing in Multi-Client. We'll continue investing in R&D. We've got a very strong R&D pipeline of projects for equipment because we need to have the products in the nodes, in the land nodes, in the offshore nodes and the marine streamer.

And so we have the capability to invest, which is not going to be the case for all of our players and in the marketplace. Now of course, we're looking as well inorganic, but we're very mindful with our cash situation. So we wouldn't be doing anything large, I would expect. But if there is opportunity here and there to grab on some technology, perhaps also on the diversification side on the SHM[?], we're continuing that investment too. We're just on the

lookout. But I would say the main opportunity is to come out of that crisis further consolidated in our market position.

**Mick Pickup:** Okay. And then just a follow-on. For the penalty payment from commitment to Shearwater, how does that run through the results? Does that counters part of the CapEx that you have to pay anyhow for the Multi-Client? Or does it come through as a loss within GGR?

**Sophie Zurquiyah:** I'll let Yuri comment on that. It is not the CapEx. We don't CapEx that.

**Mick Pickup:** Okay.

**Yuri Baidoukov:** Good morning, Mike. Yeah, this goes through the P&L, through the income statement of GGR.

**Mick Pickup:** Perfect. Thank you.

**Sophie Zurquiyah:** Sure. You're welcome.

**James Evans (Exane BNP Paribas):** Hello?

**Sophie Zurquiyah:** Hello.

**Yuri Baidoukov:** Yeah, James.

**James Evans:** Yes, sorry. It's James Evans here from Exane. I didn't recognise my name there. Hi Yuri. Hi Sophie. Hope you're both well. Just a very couple of quick follow-ons, please. So if you just – on the pre-funding for this year, do you actually have enough secure notes to get you that 75% or do you sort of rely on the commitments to existing surveys or things that are in the processing stage? And then, secondly, I just want to quickly follow-up on Mick's question about the commitments. Are we talking about a relatively low amount of potential penalties here, less than \$10 million or something like that? And if you could us give any idea of sort of the, I guess, the penalties relative to how much you would spend if you were using the boats? Is it a lower drop through? Obviously, there won't be a lot of project costs associated with anything if you aren't doing it. Is there anything that can help reassure on that potential liability? And I guess the question is just coming from [inaudible] that conditions persist into 2021. Obviously, we all hope that's certainly not the case. Thank you.

**Sophie Zurquiyah:** Yes. Hi James. I'd say that we're fairly comfortable with that 75%. I don't think – I mean, we started the year with a very large backlog in Multi-Client, which was quite unusual in terms of our mix of projects. But typically, when we – at the start of a given year, we would have a certain percentage of new projects to find during the year to start during the year. And this year was different. We started the year with all these projects I mentioned we already identified, committed and associated with pre-commitment.

Now of course, we didn't have – we don't have, at this stage, all the pre-commitment that we think we will get, but the – I would say, it's the number that we have in our bag, if you want, our backlog is high enough that we're comfortable with that 70%, 75% number. And that's one reason why we always stuck to this 70%, 75% number because it's a number that we think we can sustain through this cycle.

Of course, when things are really great, we could do a lot better, like we did last year, but I think it's kind of a floor that we put ourselves in terms of cash outlay, right? The cash outlay

is how we manage the Multi-Client, which is essentially the pre-funding minus the cash CapEx, and that number has to fit within a certain range, and that's how we look at our portfolio and we'll look at betting new projects.

So a little uncertainty, that's your question. Little uncertainty on the pre-funding. The uncertainty is essentially on after-sales. Yuri, you want to talk about the commitment?

**Yuri Baidoukov:** Yes, sure. So the – again, good morning, James. The range that you gave, actually, yes, is meaningful, I would say. So in other words, again, these penalty that we envisioned for this year based on our reduced Multi-Client CapEx should be in the range of, I would say, up to \$10 million with the CapEx that – and the projects that we have in place. And, of course, this is significantly lower should we utilised a vessel, say, with zero or very limited pre-funding.

**James Evans:** Okay. Thanks. And would I be right, if you can – if you spend about \$250 million, \$270 million, that's the sort of level at which there wouldn't be any necessary sort of penalty payments. Is that the right way to think about it?

**Sophie Zurquiyah:** Not necessarily – sorry.

**James Evans:** I know the land marine mix will matter in that.

**Sophie Zurquiyah:** Well, exactly, because we've got – this year, we've got this enormous – a big survey in the node side. So we do expect, we'd like to do nodes every year. But if we didn't do the nodes, it wouldn't need to – we could do the 24 months without spending necessarily the same amount of CapEx.

Perhaps if one good reference point for you to look at is the surveys, right, because we talk about our surveys, Nebula. We've been there. We do expect to be on that survey for most of this year. You have Gippsland. So if you could count, you could see that we're not too far from the 20-vessel months because I told you that we have four months flexibility.

**James Evans:** Okay. Understood. Thanks for your help. Good luck.

**Sophie Zurquiyah:** Thank you.

**Yuri Baidoukov:** Thank you, James.

**Jon Masdal (DNB Markets):** Yes. Hello. It's Jon from DNB here. I think we had a few questions on the Shearwater deal. Those have mostly been related to the two vessels you're using. My question is on the three vessels where you have guaranteed for utilisation and you have a liability now of \$79 million. Could you just explain what are the utilisation assumptions in that liability? What is the maximum liability? And what's the cash flow profile on this?

**Yuri Baidoukov:** Yes. Sophie, I will take this question.

**Sophie Zurquiyah:** Sure.

**Yuri Baidoukov:** So good morning. The – as we explained in our – in the notes to our financial statements, as a result of exit from marine acquisition business and our agreements with Shearwater, yes, we do have a liability, which is called idle vessel compensation. This is the compensation for the three idle vessels. It's not a compensation related to the 24 vessel months.

And basically, the amount of liability that you see is based on our forecast of those vessels, how long those vessels are staying idle. And this is also part of the same five-year commitment. So basically this is the net present value of this liability that you see on the balance sheet. And at the end of March, this liability was \$74 million.

**Jon Masdal:** Okay. But just to clarify on –

**Yuri Baidoukov:** And sorry, on the cash flow side, the annual payment that we make for the idled vessel compensation is included in the 2021 – the year 2021 plan or cash costs related to exit from acquisition. In other words, this year it's in the \$70 million to \$80 million of cash costs related to CGG 2021 plan.

**Jon Masdal:** And just to clarify this, the \$74 million or \$79 million or \$74 million at the end of March, that is on all three vessels not working, or could this liability be significantly larger, is basically my question.

**Yuri Baidoukov:** No, it's based on all three vessels.

**Jon Masdal:** Okay. Thank you.

**Yuri Baidoukov:** Sophie, your conclusion?

**Sophie Zurquiyah:** Sure. Yes, okay. All right. Well, thank you very much. I think it was – it's been an eventful start of the year for sure. I recognise that we're – we don't have a lot of visibility. So as soon as things clarify, we'll be able to share more information about the outlook and what we think will happen to CGG. But thank you very much for your time. I appreciate it, and we'll be in touch, and we look forward to speaking with you on the different interactions on one-on-ones. Thank you very much again. Bye.

[END OF TRANSCRIPT]