CGG Q1 2022 Financial Results

Wednesday, 4th May 2022
Introduction
Christophe Barnini
Head of Communications & IR, CGG SA

Welcome
Thank you. Good morning and good afternoon, ladies and gentlemen. Welcome to this presentation of CGG’s First Quarter 2022 Results. The call today is hosted from Paris, where Mrs Sophie Zurquiyah, our Chief Executive Officer, and Mr Yuri Baidoukov, our Group CFO, will provide an overview of the quarter results, as well as provide comments on our outlook.

Disclaimer
Let me remind you that some of the information contains forward-looking statements subject to risks and uncertainties that may change at any time. And therefore, the actual results may differ materially from those that were expected. Following the overview of the quarter, we will be pleased to take your questions.

And now, I will turn the call over to Sophie.

Q1 2022 Overview
Sophie Zurquiyah
Group CEO, CGG SA

Q1 2022 key segment financial highlights
Thank you, Christophe. And good morning, good afternoon, ladies and gentlemen, and thank you for participating in this Q1 2022 conference call. We will move to slide five now. And let me start with some general comments on the evolution of our businesses and market environment during the quarter.

Overall, Q1 was a slow start of the year with significant differences among our three business lines. Geoscience revenue was $75 million, up 36% year-on-year pro forma. Our Geoscience perimeter no longer include GeoSoftware and the Physical Asset Storage business of Smart Data Solutions, which we disposed of last year, and we will present year-on-year pro forma revenue comparisons to best show the underlying business performance.

Geoscience performed very well this quarter and continues to see steadily increasing activity. The level of bidding activity is up 51% year-on-year and the level of commercial bids pending was at $347 million early April, compared to $209 million early December 2021.

Earth Data, which is our renamed Multi-Client business, as we continue to expand the data types that we sell. Earth Data was in line with our expectations and up year-on-year with the typical low Q1 pre-funding revenue but stable year-on-year with stable CapEx. As you know, the pre-funding ratio is usually low at the beginning of the year and increases through the quarters. We expect to see the same trends in 2022.

The positive news is that Q1 after-sales increased 56% year-on-year, which confirmed our view of seeing after-sales continuing to strengthen as the year progresses.
As expected, and highlighted during our Q4 conference call, Sensing & Monitoring, which is the new name of Equipment business, as we continue to grow into new markets, had a low quarter in the business that tends to be lumpy and is increasingly driven by significant orders. In addition, some sales this quarter shifted to later in the year. Large tenders in Saudi Arabia for land and OBN are positive signals for an active second half of the year and 2023. Overall, our Q1 revenue of $153 million was down 24% year-on-year pro forma with contrasting dynamics between the business lines.

Data, Digital and Energy Transition was up 34% year-on-year pro forma, whilst SMO, Sensing & Monitoring, was down 70% year-on-year. Segment EBITDA and adjusted segment EBITDA was €39 million, a 25% margin and up 31% year-on-year. Net cash flow was €68 million, including €90 million positive change in working capital.

Our core markets continued to recover, signalled by increasing commercial discussions with our clients and bids. We operate today in a favourable cycle driven by the need to replace depleting oil and gas reserves with the focus on short-cycle exploration. We're seeing also more consistent requests from energy companies to better understand the subsurface for their energy transition programmes.

**Digital, Data and Energy Transition (ex-GGR) key financial indicators**

We will move to slide seven now. DDE segment revenue was solid this quarter at €119 million, up 34% year-on-year pro forma, with growth in both Geoscience and Earth Data. DDE’s business dynamics have historically been strongly correlated with E&P spend, and this is what we’re experiencing in Q1 2022. Profitability significantly increased with a flow-through at 90% on incremental revenue.

**Geoscience key business indicators**

Now, in slide eight. Geoscience revenue excludes revenue from GeoSoftware and the Physical Assets business of Smart Data Solutions that we divested in 2021. Geoscience external revenue was €75 million in Q1, up 36% year-on-year pro forma with growth mainly coming from North America and EAME.

Year-on-year backlog was slightly down, which is related to the decreasing average size of the projects and does not reflect yet the rapidly growing commercial activity that we see. Several clients are now concerned about being able to access processing capacity for their upcoming needs, and rightfully so, as it will take some time to recruit people.

The total production per head KPI continues to improve as we are achieving the full effect of cost reductions, combined with improving utilisation of our resources. And to support our growth perspective in our core businesses and the development of our Beyond the Core businesses, particularly High Performance Computing, CGG recently signed a lease to build a new European HPC hub in Southeast England that will become operational in the first half of 2023 and increase our cloud HPC capacity by 50 petaflops initially and up to 100 petaflops as required.

**Geoscience Q1 operational highlights**

Going into slide nine. In Geoscience, our technology differentiations continues to make significant impact in our market position. We have been recently awarded several large projects, where our elastic full-waverform inversion imaging technology was viewed as unique...
in the industry. In fact, these advanced algorithms contain more accurate physics and provides striking improvements in sub-salt imaging. They enabled our clients to access much clearer view and understanding of previously imaged reservoirs.

As an example here, the image on the lower right shows much more distinctly the continuity of the various layers below the salts and will substantially improve the interpretation of this area. A client recently mentioned how this technology enabled them to identify an extra 500,000 barrels of oil.

Geoscience activity has picked up, starting with North America, and more recently, Europe, with a few of our imaging centres running at near full capacity already in early May. We are encouraged by the high level of commercial activity which will drive improvements in other parts of the world.

We also continue to develop and promote our Beyond the Core businesses. And this quarter we launched TailingsPulse, a smart mine monitoring solution for structural integrity. We released new GeoVerse studies, a product from our Earth Data library for lithium brine, geothermal resource evaluation and carbon storage identification, all leveraging our geology capabilities and historical geological database.

We signed strategic partnerships, including one with Kent, another with Carbon Management Canada, and a third with GCE Ocean Technologies cluster. Our aim is to be the partner of choice for subsurface understanding and monitoring for the energy transition.

**Ambitions & Goals: CGG Data Hub**

Slide 10. We'd like to continue to introduce you to our Beyond the Core businesses. And this quarter, we will highlight our data hub offering. During the last few years, building on our digital data management and subsurface expertise, CGG put considerable efforts towards building a unique data ecosystem that enables our clients to effectively ingest, classify, access, visualise and utilise the diverse datasets they need to optimise their subsurface understandings, both for their oil and gas portfolios and for the energy transition.

It is very different from the analytic solutions offered by the hyperscale cloud providers because we use a geologic taxonomy and ontology that we have developed over the last 45 years. This allows clients to digitally associate the diverse datasets geologically, including their own data and data from other vendors in a meaningful way.

This software is typically provided as a service and we conservatively see the market to be at a few hundred million dollars per year in the short term, given the amount of subsurface data that our clients manage. For clients that wish to move their data to the cloud, we can also leverage our CGG HPC cloud and Data-as-a-Service offering.

In summary, data hub offers digitalisation services that create robust, integrated and structured subsurface datasets or modules which enable users to efficiently discover, access and utilise all their data in order to overcome subsurface challenges and reduce cycle time. We have just been verbally awarded a significant multi-million-dollar contract to perform this type of work over a period of 18 to 24 months for a super major.

**Earth Data (ex-Multi-client) key business indicators**

If we move to Earth Data now. Earth Data sales were $44 million, up 28% year-on-year. Cash CapEx of $33 million this quarter was stable year-on-year. We started a marine
programme offshore Brazil that represented a significant portion of our CapEx. Our pre-funding revenue of $15 million was stable year-on-year and pre-funding is typically low in the first half of the year and builds throughout the second half.

After-sales were stronger this quarter at $30 million, up 56% year-on-year sustained by the US and North Sea.

**Earth Data Q1 operational highlights**

Now on slide 12. In Brazil, after the completion of the vast and successful Nebula programme, we started Antares located in the South Santos Basin. With good weather and fewer mammal interruptions, the Antares acquisition has been very productive so far. The new data will provide a second azimuth with a longer offset to improve images of the pre-salt.

Nebula A processing is now complete and we have confirmed that the dual-azimuth data provides significant image improvement.

In the US GoM, our reimaging projects continue to draw pre-funding and we began the reprocessing of our large StagSeis Deux programme with solid pre-funding. In the North Sea, we just started our 2022 summer campaign and secured significant pre-funding from different clients for North Viking Graben East-West programme. We are adding 1,800 sparse nodes to this 9,000 square kilometre streamer programme. This will create hybrid north streamer data to better invert for subsurface velocity, and thus improve the identification of target structures supporting the search for short cycle near step-out exploration opportunities.

And finally, our GeoVerse geology and well data library is now fully accessible as a service and we have closed several commercial projects.

**Energy transition: lithium brine and geothermal energy studies**

Now on slide 13. In support of energy transition, we carried out screening studies for geothermal energy and geothermal lithium brine. These data-rich studies capitalise on CGG’s wealth of Geoscience data, know-how and data science expertise, and they address a wide spectrum of application from geothermal resource assessment through critical mineral exploration to carbon sequestration.

These are just a few examples of the vast amount of geologic and geophysical data available through our GeoVerse platform that can be used to explore for oil and gas, explore for the various minerals necessarily for the energy transition, and may even be used to search for geothermal opportunities by looking for favourable gradients and anomalies. The data includes over 550,000 quality-controlled data points, and viewing and selection of the data is made easy in the GeoVerse platform.

**Sensing & Monitoring (ex-Equipment) key financial indicators**

We will now move to Sensing & Monitoring, slide 14. Our Sensing & Monitoring segment revenue was low this quarter at $34 million, down 70% year-on-year. While the SMO business is lumpy in nature based on large acquisition programmes globally and we had a strong Q1 in 2021 based on year-end 2020 mega-crew sales, revenue was lower than expected this quarter as some sales of land equipment shifted to later in the year. Marine sales continued to be limited to repair and maintenance.
And this year, beyond the core activities are supported by a very active defence sector and will increase through the year. At this level of sales, EBITDA of the Sensing & Monitoring business was negative at minus $12 million, a limited loss for such a low level of revenue.

We have evaluated the full impact of the Russia sanctions to be around $35 million for the full year, which could be partially offset depending on the timing of large mega-crews in the Middle East. Based on the growing visibility of these opportunities in the second half of the year, we remain confident in the full-year SMO performance.

**Sensing & Monitoring Q1 operational highlights**

Now moving on to slide 16. During the quarter in Land, we delivered equipment to Brazil and India. Marine was particularly slow, but we see significant potential for our GPR 300 marine node in the second half of the year and are preparing for these opportunities.

In summary, following the slow Q1, we anticipate an acceleration of the Sensing & Monitoring business in the second half of the year, driven notably by the confirmation of several tenders for large land seismic mega-crews and OBN mega-crews in Saudi Arabia with equipment deliveries at the end of 2022 and early 2023.

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

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**Financial Review**

Yuri Baidoukov  
*Group CFO, CGG SA*

**Income Statement**

Thank you, Sophie. Good morning and good afternoon, ladies and gentlemen. I will comment Q1 2022 financial results. Starting with slide 17, Q1 2022 income statement.

Let me first comment on the overall Q1 activity, which was different across our businesses. Segment revenue was $153 million, down 24% pro forma, excluding GeoSoftware and Physical Data Storage businesses that were sold in 2021 and down 28% year-on-year. It was a low quarter as anticipated with lower-than-expected revenue in Sensing & Monitoring ex-equipment.

However, revenue in Digital, Data and Energy Transition ex-GGR was up 34% pro forma and up 19% year-on-year. The respective contributions from the Group's businesses were 49% from Geoscience, 29% from Earth Data, 78% for the DDE segment, and 22% from Sensing & Monitoring segment. We anticipate 2022 quarterly sales pattern with sequential acceleration, especially in the second half of the year.

Segment EBITDA and adjusted segment EBITDA was $39 million, up 19% year-on-year at 25% margin. Segment operating loss was $5 million and adjusted segment operating loss was $4 million. IFRS 16 adjustment at operating income level was plus $16 million, and IFRS operating income after IFRS 16 adjustments was $11 million.

After cost of debt of $26 million, other financial income of $7 million, taxes of $9 million, and net loss from discontinued operations of $2 million, Group net loss was $19 million this quarter.
Simplified Cash Flow
Looking at the simplified cash flow on slide 18. Q1 2022 segment free cash flow was $86 million, after a $90 million positive change in working capital on high collections of strong Q4 revenues, partially offset by growing inventories in Sensing & Monitoring, and $42 million CapEx. Q1 2022 CapEx was flat year-on-year and included industrial CapEx of $4 million; Research & Development CapEx of $5 million, and Earth Data cash CapEx of $33 million.

Q1 2022 net cash flow was $68 million, after $13 million lease repayments, zero paid cost of debt, $7 million CGG 2021 plan cash costs, and $2 million positive free cash flow from discontinued operations.

In April, we completed the sale and leaseback of the Galileo Headquarter building for a total amount of €59.25 million. And after the repayment of the remaining capital lease balance, the net proceeds were around $32 million.

Balance Sheet
Moving to slide 19, Group balance sheet and capital structure. At the end of March 2022, Group liquidity amounted to $488 million, including $388 of cash liquidity and $100 million of undrawn RCF.

Group gross debt before IFRS 16 was $1.2 billion, and net debt was $807 million. Group gross debt after IFRS 16 was $1.3 billion, and net debt was $925 million. Our gross debt included $1.15 billion senior secured notes due in 2027; $2 million bank loans; $44 million other items, mainly accrued interest and $118 million lease liabilities.

Capital employed was $1.92 billion, down $79 million from the end of December 2021. Net working capital after IFRS 16 was at $145 million, down from $229 million at the end of December 2021, primarily driven by significant reduction in net accounts receivable on strong collections, lower deferred revenue liability from IFRS 16, and reduction in personnel liabilities, partially offset by growing inventories in Sensing & Monitoring.

Goodwill was stable at $1.1 billion, corresponding to 56% of total capital employed. Multi-client library net book value after IFRS 16 was up at $407 million, including $374 million of Marine and $33 million of Land net book value. Non-current assets were at $378 million, with $204 million of property, plant and equipment, down $8 million from year-end 2021, and including $115 million of IFRS 16 right-of-use assets, and $90 million of other intangible assets stable from year-end 2021.

Non-current liabilities were at $95 million, down $5 million from year-end 2021. And shareholders’ equity was at $992 million, including $43 million of minority interests, mainly related to stamp duty.

Now, I hand the floor back to Sophie for an outlook for 2022 market environment and presentation of CGG new Beyond the Core Businesses’ business perspectives and 2022 financial guidance.
2022 Business Outlook & Financial Objectives
Sophie Zurquiyah
Group CEO, CGG SA

Business trends: Confirmation of the 2022 financial objectives
Thank you, Yuri. Now, we are on slide 21. I believe we are entering a multiyear cycle of increasing investments in exploration and production, driven by the forecasted strong demand for energy, the natural depletion of reservoirs and the lack of past reserve replacement investments.

The recent focused on energy security and possible reduction of supply from Russia are additional factors that will further drive and accelerate investments. In this context, energy companies will be required to replenish their exploration portfolios and accelerate time to production, all of which require high-quality equipment, data and imaging of subsurface. We expect local regulators to push for more exploration activities as confirmed by recent resumptions of these rounds in UK, Brazil and the USA, and also expect national oil companies to accelerate their development and production plans, particularly in the Middle East, Norway and Brazil, among other areas.

We believe that CGG’s clear technology differentiation will remain key and will drive and sustain our business growth. We also believe that our high technology will be needed in the context of carbon sequestration and storage to de-risk these activities.

Ocean bottom nodes are accelerating their market penetration and are becoming mainstream based on their ability to acquire the data needed to advance processing to better image complex reservoirs. This will drive demand for our processing services, as well as our Sercel WiNG nodes. In this context, we expect to see an acceleration across overall activity in the second half of the year and into 2023.

We should also see a strengthening of our Beyond the Core businesses supported by the focus on Digital and High Performance Cloud computing. Based on the strengthening market throughout the year and the visibility we have at current or new opportunities, we expect to compensate the full impact of Russia on our Sensing & Monitoring business and reiterate and confirm our full 2022 full year financial objective.

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

Q&A
Jean-Luc Romain (CIC Market Solutions): I have a question on pricing. You mentioned that your Geoscience centres or interpretation centres are quite loaded for this year. Do you see an increase in pricing coming? That is the first question. And the second is about the potential that you see for CCUS. I understand ExxonMobil[?] has mentioned a market of $1,000 billion in the distant future. What would be the slice of that market for your sense?

Sophie Zurquiyah: Okay. Thank you. Bonjour, Jean-Luc, and thanks for your question. You read my comments right. I mean, we are at that point that we think we will be able to start increasing prices as we are starting to be full. We are seeing more work coming our way
than maybe perhaps we will be able to handle. We are at that point, that we think we can start increasing prices.

Now the question will be testing the market to how much the market can absorb. And it varies a little bit depending on regions, and we are definitely more full in the US, Europe follows, and Asia is still a bit slow.

The second question on CCUS. I guess the first order of magnitude, I would go for a similar percentage as the E&P CapEx. If you remember, Exploration & Production CapEx, seismic altogether represented somewhere around 5% of the whole. I think as a first guesstimate, you could take a similar percentage. Eventually, we will need to do similar activities. We will need to be doing analysis of the subsurface, analysis of the integrity of these reservoirs. And there will be a component of monitoring as well over time, which perhaps that component will even be more important than traditionally with our seismic methods.

Yes, I mean, we are all trying to figure out what the right number is. I would say, if you take just a similar proportion as you would take for E&P CapEx. And make sure you take the same slice of it in the sense that, in CCUS, you will have all the elements around the carbon capture itself, which I would exclude. Really, it is about the whole identification of the reservoirs, the drilling of the wells and the exploitation and then the monitoring would be somewhat equivalent and equivalent to the E&P CapEx.

**Mick Pickup (Barclays):** I wonder if you could just give me a bit more colour on the change in attitude of your clients. I know you mentioned step out exploration and production focus. I think another seismic where mentioned from clearly coming back into the mix. How quick is this change from your clients, and how keen are they to get going? And what is the magnitude of step change you are trying to get to?

**Sophie Zurquiyah:** I mean, they are different kinds of clients, and that is why I always discriminate. First of all, hi Mick, thanks for your question. And yeah, we always discriminate between the types clients because they behave a little bit different. We started with the super majors that are all announcing their fantastic results in Q1. They are all pretty much saying they are keeping the course, meaning they are keeping the capital discipline. However, what you might have heard them say too is that is going to be going towards the higher end of their guidance for E&P CapEx.

Some of them have small brackets and some others have larger brackets. That is one element. You are starting to see them lean on the higher side.

Super majors are clearly driven first by anything that increases production in the short term. It could be production enhancement, identifying back pass reserves or step out exploration. Anything that is short cycle is definitely the priority. Yet, some of them are clearly looking at frontier exploration, not all of them, but some.

And a good data point for that are the results of TGS, right? They had a really good quarter, and a lot of it was driven by frontier data. That is that.

Third, the national oil companies, clearly, they probably have a longer-term view. You see them more heavily going into large seismic projects to understand the subsurfaces and develop their resources in the long run. They are not as much into that short cycle, but taking a longer-term view.
And in the middle, you have a wide range of more independent or private company. It is a bit of a mixed bag. Some of them are behaving more like the super majors, first prioritising the short cycle. However, others are more, I would say, looking at exploration. They are looking at longer-term developments.

Definitely we are starting to see a shift in the market. I think when the whole realisation of energy security, that the oil price is going to stay high, that it is becoming the reality has happened too late after the budget cycles. And so, we will see really the sort of the increases start to translate into next year, although I would think super majors will continue with the capital discipline.

**Mick Pickup:** Okay. And secondly, you mentioned the Middle East, the Equipment sector saying that Middle East opportunities will offset the Russian impact. Are they incremental Middle East opportunities that have arisen since you last spoke to us? I see you remember the Equipment outlook was stable-ish this year as a starting point. Do you think the Middle East has got better than you thought it was going to be? Is that what you are trying to say?

**Sophie Zurquiyah:** Absolutely. I did say at the time we did the budget and at the time we guided for the year, we did not have visibility on any significant large mega-crew or sale. And we knew something could come in Saudi Arabia because they really are running at a low run rate of seismic acquisition, if you look at historical data.

We knew there might be something coming, but we did not know the magnitude. And right now, what we have heard, and it changes at the margin, is two Land mega-crews and then two or three OBN crews. The difference being is that there is clearly a focus as well on the offshore side of Middle East. And that is just the Saudi Arabia side, but definitely Algeria is picking up. We are having positive signal in Libya. And I would not be surprised that we have other positive signals from other countries in GCC areas. Definitely, it has been an improvement.

Now the timing of that is the bid is supposed to be out for Saudi anytime now. And what our understanding is that they want the crews to start as early as possible in 2023, which would mean delivery back-loaded in 2022 and early 2023. A similar situation in a way as we experienced in 2020.

**Kévin Roger (Kepler Cheuvreux):** Just coming back on what you said on Sercel and the Saudi opportunities, Sophie. You just said two mega-crews and three OBNs. And if I understand that could be by the end of the year. Do we agree that the mega-crews is something like $50 million to $60 million opportunity? And what will be the contract value of OBN mega-crews also? If you can mention that, it will be great to understand the magnitude that you could see just in Saudi Arabia for the second half of the year.

The second question is related to the Multi-client activity and the current discussion that you have with the clients in terms of late sales. It seems that you mentioned that there is more and more interest commercial discussion with the clients, etc. Can you give us a bit of magnitude of what you see notably for the Q2, for example, what you expect? What could be potentially reached considering the level of discussion that you have right now and the fact that it seems that you are a bit more confident than two months ago?
And the third one will be related to the cash position, maybe for Yuri. Q1 performance is quite good in terms of net cash flow. Q2 will be helped by the disposal of the offices in Massy. Can you also give us a bit of colour of what we should expect in terms of net cash flow generation for the full year, please?

Sophie Zurquiyah: Okay. Merci, Roger. Good evening, Kévin. I will try to address all your questions. You know very well the opportunities for mega-crew and the size is orders of magnitude that you are talking about, let us say, $50-ish million for Land mega-crew, and then $30 million to $50 million for OBN crew.

Now keep in mind, this is one size is the commercial. Now the second one is the ability to deliver. Now we live in a world that, I mean, supply chain disruptions and long cycles of manufacturing. Basically, the manufacturing plan we have, we launched at the end of the year. We procured everything. In that sense, we will not have any disruption. We will be able to deliver what we plan to deliver.

If all of a sudden, something shows up that of very high magnitude, we cannot just turnaround and manufacture for it. We will be somewhat limited in what we can deliver this year and recognise in terms of revenue this year by our manufacturing plan and what we have in the pipeline.

We can clearly deliver, I would say, one OBN crew and probably one Land mega-crew, but not a whole lot more than that. The rest would have to be coming into next year.

Kévin Roger: It will mean that basically, it is at least $80 million of revenue from Saudi Arabia this year. And for next year, it is more than that, basically?

Sophie Zurquiyah: I mean, I need to temper your calculation. Some of it was already, even though we did not have identified specifically as Saudi mega-crew, there was some things that we were planning to sell already. It is not all additional from our plan. That is one.

The second one on the Multi-client. Actually, the comment I was making on the very active commercial interaction was more related to the Geoscience side, so clearly, very, very active on that side. And there is a logic for it because it is very related to production, development and production and immediate returns, where Multi-client still has, of course, we have a lot more of our surveys positioned in those mature areas and that activity continues there, actually very much driven in the North Sea by those newer or smaller companies.

However, I would say the late sales, we have a little bit more visibility in some of the M&A-driven and transfer fee conversations. I would say we have a slightly more positive view than when we gave our guidance a couple of months ago, but it is not so significantly improved, right? At this point in time, I would call it a moderate improved view on the after-sales.

Yeah. And maybe in terms of timing, we are thinking the transfer fee that is associated with the Woodside Beach[?] probably could materialise earlier than we planned in the second quarter. And that is just because the closing of the deal has been pushed forward by one month. They actually do close the deal in 1st June instead of 1st July, that could trigger that conversation earlier. However, that is just a Q2 to Q3 shift.

And I will let Yuri to talk about the cash flow.
Yuri Baidoukov: Kévin, on the cash position, basically, as you see, Q1 revenue is obviously lower than Q4. Therefore, collections or the level of collections mechanically, if you want, in Q2 would be naturally lower than that in Q1. You are right that Q2 will be helped, of course, by the net proceeds from the Galileo sale and leaseback. It is about $32 million, but also the new schedule of payment of semi-annual coupon on the bonds is now different. We pay interest twice a year. We pay on 15th April and 15th October. And therefore, Q2 and Q4 have this additional element of roughly $48 million to $50 million of interest payments in terms of cash outflow. Basically, this is kind of the Q2 elements, if you want.

Kévin Roger: For the full year, Yuri, would you say that considering the performance that you had in Q1 and the outlook that you have, would you say that it is very likely that you will be net cash flow for 2022 full year?

Yuri Baidoukov: Well, like always, it will depend on what will be the level of receivables in December. Basically, yeah, the demand, the timing of the sequence of revenue, because again, looking at the Equipment business, as Sophie already mentioned, it is shaping up similar to 2020, right? In other words, with the year, which is back-loaded with mega-crews delivery starting in late Q4 and then, of course, basically, yes, collections of that but also additional revenue in Q1 of the following year. Basically, that was again the usual element.

Sophie Zurquiyah: Perhaps, Yuri, you can comment on outside working cap.

Yuri Baidoukov: Yes, of course, the change in working capital was quite positive this quarter, right, at $90 million. Again, it will depend again on where we land at the end of the year.

Sophie Zurquiyah: My point was, Kevin, is I think the working capital is the part that in the equation that is difficult to gauge. Certainly, if we don't have like outside of significant effects of working cap, yeah, we should be fine and be at that breakeven point. Where the difference can come from is a change in working cap. And if we end up having being very, very back-loaded in terms of revenue and having the inventory and sales at year-end, we could find ourselves in a similar situation as in 2020.

Yuri Baidoukov: Well, that being said, of course, you know the guidance for our EBITDA and the guidance for our CapEx in other words. Of course, EBITDA minus CapEx will be quite positive here this year.

Kévin Roger: Okay. Understood.

Yuri Baidoukov: And also, obviously, a much lower level of cash outflow from discontinued operations, right, which is down to roughly about $20 million versus higher numbers a year before.

Guillaume Delaby (Société Générale): Two questions, if I may. An easy one and a very, very tough one, but it will be the second. You will have time to prepare yourself. The first one, basically is, I would like to relate what you said, Sophie, regarding net sales basically. You are quite optimistic, but less optimistic than for Geoscience. Also in the free cash flow equation for 2022, of course, net sales could play a significant role probably in Q4. If I can have some more comment on that, is that, of course, you do not want to commit yourself and this is absolutely normal. Given what is happening now, a good surprise for net sales beyond Q2, Q3 and in Q4 is possible. What would you say? Any observation or whatever?
Sophie Zurquiyah: Yes. Good evening, Guillaume. Let me maybe qualify my comments on after-sales, right? I am very convinced we will do better than last year, but last year was a fairly low point and a disappointment. Personally, I know that this year will be a lot stronger.

Now the question, will it be a lot more than what we had guided or what we thought two months ago is the question I was answering to Kévin? And I think, my view is a little bit better, maybe a slight improvement from a couple of months ago, but definitely a strong improvement from a year ago. And now Q4 is similar, I would say, as usual. We will have a view when we enter Q4. It is difficult to know.

Of course, if you look at macro elements, they are all there to have a strong Q4, because of course, oil price is high, our clients are generating strong cash flows, the perspectives are good. And I would say one of the issues of the kind of not seeing the E&P CapEx or the spending increase, a strong reactivity, I would say, in E&P changes is one what I mentioned that this is all happening way after the budget cycle.

However, I think it is the question mark of whether we are indeed entering a long cycle, right? Because if you think this is short-lived, the oil prices in the $100-plus just for a short period of time, that is not going to drive significant exploration and exploration investments. And still Multi-client is exposed to that exploration part of the budget.

However, I think that level of confidence that, yes, indeed, we are entering a multiyear cycle, the energy prices, oil and gas prices will remain high for a significant future that the governments are turning around and actually pushing companies now to explore again. All those are favourable elements that should be conducive for a strong Q4 in preparation post budget of our clients in preparation of 2023.

We did say that we always saw the acceleration being 2023, and that still is the case. It is going to be a strong acceleration. And I am just afraid that everybody will want everything in 2023. And then us, as a service company, and not just CGG but the whole ecosystem, will have a hard time delivering what the clients want. I think it will be next year a bit of a problem of supply of services in our sector.

Guillaume Delaby: Okay. That is really helpful. Now also a very nasty question, of course, and the very nasty question is for 2023. Let us assume, which is probably the more likely scenario that basically we are at the beginning of a multiyear cycle. Basically by 2023, in order basically to reimagine the CGG equity story, what is your view regarding your balance sheet? Do you want to keep, I would say, on the status quo believing that organic free cash flow will be enough to deleverage the company, or at least partially? Do you intend to dispose some assets? What is the rationale for keeping SMO? Or would it make sense also maybe to make a rights issue, a share price, which is above the current share? This is my nasty question. How can you help me?

Sophie Zurquiyah: Good. All right. That is not as nasty as that. I would say we need to ourselves gain confidence into the recovery of our core businesses, which we are gradually definitely seeing. First of all, I want to see the core businesses pick up. First of all, we are looking at all the options, right? I want the core business just to go into that growth mode again. We need to put a bit more results under our belt on the Beyond the Core. We are starting to see, I mentioned this verbal award for significant digital contracts. That is good. And we will make an announcement fairly shortly. You will see more announcement come
into other directions. I want to see a bit more there and make sure I can bring confidence to the market and the fact that we will be delivering in the Beyond the Core as well.

And then in parallel, in the back end, we are looking at different options. What do we want to do? What do we want CGG to look like in the future? And those are all Board conversations that will tell you the answer when the time comes. And of course, nothing is out of question, including possible divestitures. The divestitures have to be at the right time and the right price. We are looking at different options, but it is way too early to consider and talk about them.

The rights issue, sorry, it was a question. For now, we are not considering that as an option.

**Speaker:** A question dedicated to Sensing & Monitoring business and deliveries, which are scheduled during the next quarters. Is recent raw mat price increase or also tensions on the supply chain, but also on shipping could put some pressure on your margins? And when you are bidding now, do you have some closes or index closes on the pricing?

**Sophie Zurquiyah:** Yes. Thank you for your question, and good evening. In terms of the revenue sequence for SMO, as mentioned, I mentioned it will be building through the year. We really started low and we are going to gradually increase the revenue. However, I mentioned also that the manufacturing plans that we are delivering right now has been launched way last year. We are pretty much confident that we will be able to deliver everything that is in our manufacturing plan. We do not expect to see any disturbances from our ability to deliver.

In terms of price of escalation cost, it is not that significant because pretty much everything we have in our manufacturing plan this year has been locked down, locked in terms of price a year ago. We will see some, a bit of inflation, but very minor. We are definitely starting to increase prices to be able to pass. It is not like there is an escalation clause or whatever. We have a price. Then, as we see cost increase, when we are bidding on proposals, we are just increasing prices. We are definitely monitoring the situation in terms of the cost and pricing head on.

Now I think we will see a little bit more inflation into next year as we are starting to secure our supplies for 2023. We are seeing some levels of inflation. However, keep in mind also that some parts of it is increasing a lot, like for example, steel and some raw materials are increasing a lot, but others are not so much.

When it becomes all in the mix, it is not that much of a significant cost increase in the end of the day. This is something we believe we can manage.

Great. Well, I think we are done for tonight. Thank you very much. Appreciate the great questions and the easy and the difficult ones. I wish you all a great evening and hope to talk to you soon. Thank you.

**Yuri Baidoukov:** Thank you, everybody. Goodbye.

[END OF TRANSCRIPT]