



CGG Q2 2022 Financial Results Conference Call

Thursday, 28th July 2022

Introduction

Christophe Barnini

Head, Group Communications & Investor Relations, CGG

Opening

Good afternoon, and good morning, ladies and gentlemen. Welcome to this presentation of CGG's Second Quarter 2022 results. The call today is hosted from Paris, with Ms Sophie Zurquiyah, Chief Executive Officer and Mr Yuri Baidoukov, Group CFO. We provide a number of you, of the quarter results, as well as provide comments on our outlook. Let me remind you that some of the information contains forward looking statements, subject to risk and uncertainties that may change at any time, and therefore the actual results may differ materially from those that were expected. Following your review of the quarter, we will be pleased to take your questions. And now, I will turn the call over to Sophie.

Q2 and H1 2022 Overview

Sophie Zurquiyah

Chief Executive Officer, CGG

Q2 and H1 2022 Key Segment Financial Highlights

Thank you, Christophe. And good morning, good afternoon, ladies and gentlemen, thank you for participating in this Q2 2022 conference call.

We'll move on to Slide 5. And I'll start with a few comments on the macro environment. The oil and gas market started, after years of underinvestment, combined with post COVID strengthened demand, and increased geopolitical uncertainty with the war in Ukraine highlighting the importance of energy security.

Energy Transition continues to progress, but it will be a long process, during which all sources of energy will be required. short cycle projects and unconventionalals will not be sufficient to meet demand, and new resources will progressively need to be discovered. It will take time to bring meaningful new oil and gas supply to the market, which means that we anticipate entering a longer period of sustained high oil and gas prices.

While NOC is priced at private equity backed companies, and to a certain extent, independent, are reacting more swiftly with increased CapEx, IUCs are still constrained by public pressure towards oil and gas investments, along with a capital discipline, deleveraging and shareholder return commitment.

Given the significant cash flows generated by the sector, EMP companies are still in a strong position to both respond to the demand for hydrocarbons and invest into the decarbonisation of our industry and energy transition. I expect significant increases in EMP CapEx in 2023 and beyond. And we're already seeing the first signs of return to more frontier exploration with longer cycles, particularly offshore deepwater.

Overall, in Q2, we saw more active commercial discussions and engagements across our business lines, signalling further upcoming market improvement.

In Q2 CGG delivered strong financial performance with segment revenue at \$214 million up 66% pro forma year-on-year, EBITDA at 126 million, multiplied by three year-on-year, and positive net income at 15[?] million.

Revenue was driven by the strong activity of our DDE segment, as clients starting to catch up on Geoscience work and data purchases.

Net Cash Flow was negative 56 million for the quarter, including a 42 million negative change in working capital and 47 million cash cost of debt. However, we remain net cash flow positive at 13 million for the first half of the year.

I'll go on to Slide 7 now.

Data, Digital and Energy Transition (Ex-GGR) Key Financial Indicators

Our core markets continue to recover and Q2 DBE segment revenue was high this quarter at 194 million, up 100% pro forma year-on-year, with growth in both Geoscience and Earth data. Profitability significantly increased with a high 70% EBITDA margin and a 43% operating income margin, driven by the revenue mix, the full effect of cost saving, and some pricing improvement.

Geoscience key business indicators

On Slide 8 for geoscience.

Geoscience external revenue was 17 million in Q2, up to 16% pro format compared to last year. Sequentially, geoscience revenue was softer this quarter, due to the timing of project completion. We continue to anticipate a high single digit growth for the full year.

Total geoscience order intake volume was up 61% year-on-year during the period of January to June 2022. The total production per head KPI continues to improve as we're achieving the full effect of cost reduction, combined with efficiency gains and the strengthening commercial environment. We anticipate our HPC capacity to be about 300 petaflops at the end of 2022, which is required to support our near-term growth perspective.

The construction of our new European HPC hub in southeast England, that will become accomplished in the second half of 2023, is progressing as planned.

Moving on to Slide 9

Geoscience Q2 operational highlights

Imaging activity is the strongest in North America, where customers require advanced technology for infrastructure led exploration in the Gulf of Mexico.

Technology differentiation is the strongest in North – technology differentiation continues to be key, especially in complex geology, where we win the majority of opportunity. A unique technology significantly contributes to reducing drilling risks, increasing success rates, and optimising production.

And on this slide, we show a beautiful image of the complex geology of the Nordkapp Basin in the Barents Sea at 500-meter depth. The acquisition was designed to improve the resolution of the shallower depth and find the image to interface between salt and overburdens. Thanks to our recent advanced 200 hertz full waveform inversion imaging algorithm, we were able to reveal abundant geological detail, which will be critical for exploration.

Similar technology will prove important for the analysis and monitoring of carbon sequestration and storage reservoirs.

In Beyond the Core, we were awarded a large contract over two years by BP, to support their digitalisation journey. And more specifically, we will work with the assets team to help extract the full value from their data and enable more efficient and high-quality data driven decisions. As subsurface experts and data scientists, we'll apply our advanced and bespoke machine learning models and data pipeline, to transform and curate data, to help solve complex asset specific challenges.

On Slide 10.

CGG HPC and Cloud Solutions

We developed one of the largest and from our analysis, the most efficient, high performance computing capability amongst all industries globally, because over the decades, our imaging algorithms, combined with the volumes of data that we utilise, has continuously demanded compute power and storage capabilities that are beyond general industry offering, to effectively respond to our clients' needs.

With the emergence of the cloud, our clients are increasingly looking to procure compute power as a service. And we think it is a market that we can serve effectively, based on our highly customised technology, middleware, and software that is specifically optimised for the unique challenges faced by our industry.

Beyond our industry, there are huge quantities of data required with the Internet of Things. AI and machine learning requires large compute power capacity to train the models, and many industries including biomedical, automobile, and aeronautics, need access to large and efficient compute power for the modelling of their products.

And to be clear, this is not just about the raw compute power, but it's the design of the IT stack to address specific requirements, along with all the layers of software and services that makes the best use of it. Our experience in optimising high performance computing centres, spanned over seven decades, resulted in a highly differentiated HPC solution, much of which can be packaged and offered externally.

And if we do, we simply join CGG to lead the continued expansion of the HPC and cloud solutions business. Previously, Agnes led the HPC AI and Quantum Global Business Line at ATOS, where she successfully grew the activity over the last five years and captured many references in the academic world and diverse industry around the globe.

Moving on to Slide 11.

Earth Data key business indicators

In Q2, we had two vessels working on our Earth data programmes in the Norwegian North Sea and one vessel offshore Brazil. Earth data cash CapEx was 75 million this quarter, up 72% year-on-year, prefunding revenue was 36 million with a prefunding rate of 48%.

Earth data after sales was 88 million this quarter, significantly up year-on-year, sustained by sales in Latin America, Gulf of Mexico and Norway, and significant transfer fee.

Moving on to slide 12.

Earth Data operational highlights

We continue to invest in our core basins, with a 12,000 square kilometre Antares project offshore Brazil, in the South Santos Basin, and with our Norwegian NVG East West programme.

These two programmes are continuing from earlier in the year, and we expect to attract more prefunding in the upcoming quarters.

In addition to the stack site reprocessing project in the ground, we started another reprocessing project in the Brazil Foz Do Amazonas. Both projects are driven by the need to find new exploration targets in the most established and prolific basins in the world.

The image on the slide is a nice example of the value of OBN, taken from our UK North Sea survey, it is an image with velocity overlaid on the seismic image. With OBN data and our unique advanced technology, we can significantly improve the velocity model and increase elimination.

As a result, we enable our clients to see geological features more clearly and see some structures that have never been seen before, especially under the salt.

And finally, we continue to expand our offering of data, to address energy transition, especially CCUS and mining

Moving on to Slide 13.

PaleoSalars study in the 'Lithium Triangle'

A PeleoSalar study is a good example of what we can deliver to the mineral and mining industry. By combining our broad expertise in geology and geophysics, along with our geology data and satellite imagery.

The Lithium Triangle is an area between Chile, Bolivia and Argentina. This study uses maps of mythology, rock age, surface structures, erosion and topography in the near surface, to produce lithium concentration estimates in the different basins.

The output map with the different grades of lithium is used by the exploration departments of mining companies, to identify potential new commercial deposits.

We move into SMO now with Slide 14

Sensing and Monitoring (SMO) key financial indicators

Our Sensing and Monitoring segment revenue was soft this quarter, at 46 million, down 4% year-on-year, in the absence of large major crew deals and few contracts slipping into Q3 of this year.

At this level of sales, the EBITDA of the Sensing and Monitoring business, was negative at minus 7 million.

We anticipate strong acceleration in the second half of the year, with orders either in backlog or currently in negotiation. However, the timing of the Saudi Mega-Crew, is slipping into 2023. As the acquisition tenders are yet to come out, typically there is a six-month mobilisation period between the award and the start of acquisition.

Slide 15

Sensing and Monitoring Q2 operations highlights

During the quarter, land equipment sales represented 28% of total sales due to a shift of some deliveries to Q3 '22. Several land nodal WiNG systems, were delivered to Europe and Asia.

Marine equipment sales represented 49% of total sales, driven by significant deliveries of GPR300 OBN nodes.

Sercel was awarded a major contract for the supply of a complete set in upstream set, the first order of a complete stream of set since 2014. And sales from Beyond the Core business was 6 million, sustained mainly by increasing demand from the defence sector.

And in summary, following the slow first half of the year, we anticipate a significant strengthening of the sensing and monitoring business in H2 2022, and even more so in 2023, driven notably by the upcoming tenders for large land seismic mega crews, and OBN mega crews in the Middle East and North Africa, with equipment deliveries expected at the end of 2022 or in H1 2023.

Slide 16

Sensing and Monitoring: Acquisition of Geocomp and ION Software

During the quarter, Sercel completed the acquisition of Geocomp, which is specialised in high value services and products for geotechnical risk management and infrastructure monitoring. Headquartered in Acton, Massachusetts, and present in key US states, Geocomp employs 120 engineers, technicians and support staff. Its 2021 revenue was 20 million.

This acquisition is a major step in our strategy, to become a significant global player in the fast-growing infrastructure monitoring industry. We strongly believe that the complementary technologies and skills of Geocomp and Sercel will provide cutting edge solutions to address the numerous infrastructure challenges in the US and international markets.

Also this quarter, Sercel was selected as the successful bidder for the acquisition of ION Geophysical Corporation software business. ION's software business is the leader in navigation software both for vessels and ocean bottom mills. The integrated navigation systems of ION, is at the heart of cyclic operations, and it has been adapted to serve outside the industry for general marine fleet management. This acquisition is also a great opportunity for Sercel to further diversify and to develop a layer of value-add solutions on top of the equipment.

Now, I hand the floor to Yuri to cover the financial details.

Financial Details

Yuri Baidoukov

Chief Financial Officer, CGG

Thank you, Sophie. Good morning and good afternoon, ladies and gentlemen. I will comment on the Q2 financial results.

Segment Revenue

Looking at our industry statement on slide 18, segment revenue was 240 million, up 66% pro forma year-on-year. The respective contributions from the group's businesses were 29% from geoscience, 52% from our data, 81% from the geo segments and 19% from sensing and monitoring. Segment EBITDA was high at 126 million, a three-times increase year-on-year with a 52% margin due to the favourable business mix and the full benefit of cost reduction measures. Adjusted segment EBITDA was 122 million. Segment separating income was 66 million, a 28% margin, and adjusted segment operating income was 62 million.

IFRS 15 adjustment operating income level was 907 million and IFRS operating income after IFRS 15 adjustment was 59 million. Cost of financial debt was 25 million. The total amount of interest paid during the quarter was 47 million. Other financial items were at negative 4 million. Taxes were up this quarter at 14 million, primarily due to 5 million negative impact of currency exchange rates on deferred tax assets. CGG returned back to black with net income positive at 16 million.

Simplified Cash Flow

Moving to slide 19 and looking at our simplified cash flow. Segment free cash flow was 9 million including 34 million net proceeds from the Galileo headquarters building sale and leaseback, 16 million payment for the acquisition of Geocomp, and the 42 million negative change in working capital and provisions. Total CapEx was 85 million, of which industrial CapEx was 4 million, research and development CapEx was 5 million, and our data cash CapEx was 75 million. After 12 million lease repayments, 5 million CGG 2021 plan cash costs, 1 million negative free cash flow from discontinued operations and 47 million paid cost of debt, the net cash flow was 956 million. However, net cash flow for the first couple of the year was positive at plus 13 million.

Group Liquidity

Looking at our balance sheet on slide 20, group liquidity amounted to 417 million at the end of 30th June 2022 and included cash liquidity of 317 million and 100 million undrawn RCF. Gross debt before IFRS 16 was 1.13 billion and net debt was 812 million at the end of June 2022. Group – gross debt after IFRS 16 was 1.23 billion and net debt was 909 million as of 30th June 2022. Segment leverage ratio of net debt to adjusted segment EBITDA was 2.1 times at the end of June this year.

Capital employed was 1.93 billion, down 63 million from the end of December 2021. Net working capital after IFRS 15 was at 163 million, down from 229 million at the end of December last year, primarily driven by significant reduction in net accounts receivable, lower deferred revenue liability from IFRS 15, and reduction in personal liabilities partially offset by growing inventories in sensing and monitoring. Goodwill was stable at 1.1 billion, corresponding to 56% of total capital employed.

Multi-client library net book value after IFRS 15 was up at 443 million, including 412 million of marine and 31 million of land MDE. Non-current assets were 328 million with 155 million of property plant and equipment including 70 million of IFRS 16 right of use assets down 50 million from year end 2021 primarily due to Galileo sale and leaseback. And H&A new and other intangible assets were stable from year end 2021. Non-current liabilities were at 81

million down 19 million for year end 2021; and shareholders' equity was up at 1.024 billion, including 40 million of minority interest mainly related to 5G[?].

Now I hand the floor back to Sophie for conclusion.

Conclusion

Sophie Zurquiyah

Chief Executive Officer, CGG

Thank you, Yuri, and we're on slide 22. Before concluding this Q2 review and opening the floor to questions, I'd like to highlight CGG's contributions to the sustainability of the energy sector's value chain. Through our advanced technologies and data, we provide a much more accurate understanding of the Earth and subsurface which can be turned into decisions that help our clients be more efficient and sustainable, including reducing their carbon footprint. Key risks such as shallow faults or gas clouds can be avoided, and fewer and more productive wells can be drilled. Beyond the core, we support our clients with the information needed to enhance the exploration and production of minerals that are required for the energy transition and with the information that is needed to effectively evaluate the potential of carbon storage reservoirs as well as efficiently monitor their operations.

A company's high end technology business profile along with our carbon intensity reduction efforts and profile that has been consistently dropping since 2019, is recognised by ESG rating agencies. Only two oilfield services companies, including CFG, have achieved an AA rating with MSCI. And with an index of 17.9, CGG is ranked number 2 by Sustainalytics among 113 energy service companies.

So now I conclude on slide 23. Our industry is entering a favourable multi-year upcycle as it will require time and capital investment to bring new oil and gas on stream in a sustainable and low carbon intensive way while also developing the renewable sources of energy that are required to effectively manage through the energy transition. Step out exploration and unconventionals while active will not be sufficient to compensate for the natural depletion of reservoirs, and traditional exploration will have to progressively resume.

A unique and advanced subsurface technology will be key to face the energy challenges. I am convinced that carbon sequestration at scale will be required to meet the world's emission reduction targets, and this will require a comparable level of technology to characterise and monitor the reservoirs for carbon storage. We're heading into this upcycle from a leading market position across our businesses and with the unique capabilities that allow us to participate in many markets beyond our core market. Our ability to deliver exceptional technology data, Earth information, subsurface images, data science, monitoring solutions, and high-performance computing, all with outstanding results and excellent services will be even more important than it is today for our current clients and the clients that we're building beyond the core.

As we move into this new world, our clients will increasingly need to rely on the best-in-class partners that have scale and expertise. And I'm convinced that we will develop more of these partnerships moving forward. The CGG organisation has been very resilient through the recent difficult times and is successfully able to navigate through the post-COVID challenges,

including supply chain disruptions. I would like to thank the women and men of CGG for their outstanding commitment and work.

As a conclusion, I expect that we will continue to see improvements across all our businesses, core and beyond the core, as the year progresses, and we'll see further accelerated growth in 2023 and beyond. Thank you for your interest, and we're now ready to take questions.

Q&A

Operator: Thank you. As a reminder, if you would like to ask a question, please press star one, one on your telephone and wait for your name to be announced. Please stand by while we compile the Q&A roster. Once again, it's star one, one to ask a question.

We'll now take our first question. Please stand by. Your first question is from the line of Jean-Luc Romain from CIC Market Solutions. Please go ahead.

Jean-Luc Romain (CIC Market Solutions): Good afternoon. Congratulations on your results and good prospects. I have two questions actually. The one is on equipment and already you mentioned for the first-time prospect for marine equipment, is it only for OBN or do you have prospects for streamers? That's the first question.

Second question is about your after sales. Do you expect your after sales to remain strong in the second-half after this good second quarter performance? And how much was the transfer from new link to transfer fees from one operator to another

Sophie Zurquiyah: Okay. Well, thank you. *Bonjour*, [inaudible]. So I'll start with the first question on SMO. The driver is both actually, if you look into 2023, it would be both OBN, ocean bottom node and streamers; but this year the marine is very much driven by the OBN already. As you know the OBN is exposed to the production side and it's experiencing significant growth and that's we delivered last year, we're delivering more this year and even more next year. But next year, as we had anticipated the streamer replacement cycle is finally kicking in. Actually, we have one complete set of streamer on order for a colleague company, but that's not on cyclic sectors, different applications, but we are anticipating to start seeing that streamer placement kicking next year as well. So it would be both.

And so the after sales, we are seeing signals of strong Q4 sales. I can't yet talk about Q3, but I think we'll have a good year generally speaking on after sales and much improved from last year, and we're getting ready for strong Q4 sales. In terms of transfer fees, this is something that we have recurrently I would say, every year we do have transfer fees. And then I would say for the full year, the amount of transfer fees anywhere between \$30 and \$50 million on a recurring basis, and this year will be the same.

Jean-Luc Romain: Thank you very much.

Sophie Zurquiyah: Thank you.

Operator: Thank you. We'll now take our next question. Please stand by. Question is from the line of Kevin Roger from Kepler Cheuvreux. Please go ahead.

Kevin Roger (Kepler Cheuvreux): Yes, good evening. Thanks for taking the question. I'm sorry if you mentioned that during the early comments, but if I look at the imaging business, SIR, you have a top line that is lower in Q2 than in Q1 while basically the backlog is full et cetera. So I was wondering if you can explain us why Q2 is lower than Q1 on the imaging business, please, Sophie.

The second one is related to the cash and the working cap. So you had the negative movement from the working capital in Q2 from the one in Q1. What should we expect in terms of working cap and [inaudible] net cash flow for the H2? Is there any deep movement to debate on that side?

And the third one is more globally. One of your competitors in the seismic business Schlumberger adjusted the conference call last week and they had quite very bullish messages on the seismic business saying that there were a lot of discussion currently happening, that things were accelerating, lots of default semi frontier areas, that a lot of new survey were coming on, et cetera. Is it something that you see also on your site, Sophie? Do you share the statement that were made by Schlumberger last week during the conference call? Do you share everything with them?

Sophie Zurquiyah: Okay, so bonsoir first of all, Kevin, thank you for your questions. I'll answer your first and third question and then I'll pass it on to you Yuri for the cash and working caps. But on geoscience, you know the quarter is not necessarily the right metric, especially the variation from quarter to quarter. So I think you heard correctly in my comments that generally speaking this business has been strengthening, we're getting more order intake. Now, what happened on Q1 and Q2, and we expected to have the question is it's just how the projects get sequenced and we had a little bit of a up from the project by releasing some provisions. So this is just due to the how project completing, new project starting. There is really nothing to be inferred from the facially lower Q2. So we're still on our trend, and that's why I pointed out that on year-on-year trend we're still going on. First of all, you saw that H1 to H1 was still double-digit increase; and then for the full year we're still expecting to be in the high single digit producing. So really nothing special to be seen from that slight decrease from Q2 to Q1. The fundamentals are strong.

Kevin Roger Sorry, Sophie, if I can jump into it, but considering that you say business is [inaudible], backlog, [inaudible], et cetera, what would be the kind of top end – top line that you can generate with geotransport[?] What would be the top line that you can generate with everyone fully loaded, et cetera?

Sophie Zurquiyah: So that's the high single digit growth from last year is four-year on four-year is what we're planning pro forma is what we indicated in the notes. And then we'll continue to see – I mean, from the beginning when we went down, we went down by high single digits or you know 10-15%. But then the way up is somewhat similar. And we are a little bit constrained by the people side.

Kevin Roger: Okay. Okay, I understand.

Sophie Zurquiyah: That's one. And then on the comments from Schlumberger, I did read that and I was quite happy to see that they're bullish on exploration. I think they're seeing they're exposed to more parts of exploration than we are, in particular to the work construction and the drilling and they're seeing that part too. And I would say if I just look at

the purely the part that we play in, again, I'm optimistic, I'm sending positive signal that we're entering an up cycle, but as of H1, I wouldn't say there's – I wouldn't be maybe as bullish as they are based on just H1. But I'm confident about Q4. Again, we're seeing clients coming back to the conversation. I'm convinced that there's no choice other than resuming proper exploration or traditional exploration. Meaning the ILX, the infrastructure, that exploration is not going to be enough to meet the demand. So in that sense, I'm very optimistic about 2023 and forward, but I think the H1, at least for us, is good, but not bullish maybe as much as their comments.

And I'll pass it to Yuri now.

Yuri Baidoukov: Yes, thank you Sophie, and good evening, Kevin. Yeah, coming back to your second question about kind of how is the cash and working capital shaping up in H2. So in equipment business in SMO business, we do see, as Sophie was already commenting, the year being quite backloaded. And therefore, the negative change in working capital in that particular business will be there. So it will depend also on where we end up at year end in terms of receivables, right?

And the second known unknown is of course multi-client for Earth data business. And there like always, it will depend where we finish the year or December in terms of after sales, right? So basically again, we see that overall, directionally Earth data business will be also backloaded. In other words, Q4 higher than Q3. But ultimately until midnight 31st December, we will not know exactly where we left in terms of receivables at year end.

All in all, on the full year basis, of course, our objective remains the same, to be cash flow-positive before changing working capital. In other words, again, depending on where we land working cap, we'll see.

Kevin Roger: Okay. Okay, thanks. Thanks for the answer. Have a nice evening, thanks.

Sophie Zurquiyah: Thank you.

Yuri Baidoukov: Thank you, Kevin.

Kevin Roger: Thank you.

Operator: Ty. We'll now take our next question. Please stand by. It's from the line of Daniel Thomson from BNP Paribas Exane. Please go ahead.

Daniel Thomson (BNP Paribas Exane): Good evening, Sophie and Yuri. Just one clarification if I may. Last quarter, I think you said your guidance was factoring in SMO, one land mega crew and one OBN award in 2022, and there was also some potential upside from tenders in Algeria, Libya and the UAE. Is this still your latest outlook given your comments on Saudi Arabia? And has there been any progress on those potential tender announcements related to North Africa and the UAE?

Sophie Zurquiyah: Yeah. Yeah, thank you Daniel and good evening for that question. Yeah, I mean I indicated in my comments that some of the upsides that we were seeing for this year, including those mega crew in Saudi Arabia, have shifted into next year. So technically speaking, the tenders I'm fairly convinced they will come out this year. But as we're already July, you need the time for the tenders to come out, for the responses to be given. And then there's a six-month mobilisation. So very likely you're talking about

mobilisation sometime in Q1 and Q2, which means the equipment will be sold and required I think most likely in 2023. And that is for the Saudi mega crew.

Now, there's other deals that we have in the pipeline in North Africa and an OBN that we'll be selling. So if I look at the set that we need to do for the second-half of the year for SMO, obviously the first half is kind of soft. We have a big chunk of it already in the backlog and then another chunk which is already in discussions, so we're missing a little bit of it, but we have a general confidence that we'll be able to see that acceleration in the second-half of the year.

Now, compared to my comments in Q1, we'll end up softer to where I thought three months ago, but it doesn't change our guidance basically for EBITDA and OpEx[?] because I've always had the intention to sort of compensate for it and find other ways to meet our objectives. But if I just look at that business line and we knew coming into the year, it would be a sort of a transition year and it ends up being the case.

Daniel Thomson: Okay, thank you very much.

Sophie Zurquiyah: Also, Yuri points out, we're missing Russia and that is the case and we had talked about a 14 sort of \$36 million impact and then that's for sure we're missing it.

Daniel Thomson: Okay, thanks for the call, Sophie. Have a good evening.

Operator: Thank you. As a reminder, if you would like to ask a question, you can press star one, one on your keypad. We'll now take our next question. Please stand by. It's from the line of John Olaisen from ABG, please go ahead.

John Olaisen(ABG): Good evening, Paris. This is John Olaisen from ABG in the call here. I have a question regarding fresh news out today that there's been a deal struck between the Senators Schumer and Manchin in the US, and that this deal will mean opening up the Gulf of Mexico for at least rounds again, is that something you updated on?

Sophie Zurquiyah: Thank you, good evening, John. Actually, I haven't seen the news and it would be good news because the Gulf of Mexico definitely needs a little bit of a boost. It's been stalled as you know. And I mean, we're busy in the Gulf of Mexico, but on the back of production-related activity or infrastructure laid around, existing infrastructure, so we look forward to seeing the more active activity in the Gulf of Mexico. But it does need that five-year plan to be re-established. So basically, we're missing that five-year plan to be able to resume these activity in the Gulf of Mexico.

John Olaisen: There seems to be rumours out there, this potentially could be launched even already now in August, which is well if that happens. Of course, you have a big library in the Gulf of Mexico. Is it possible to give some indication of what would you expect if that happens, would you expect strong late sales already from Q4? And also on the multi-client investment side, you haven't done any big new conventional towed streamer multi-client services in the Gulf of Mexico for a while? Of course, you've done the ILX and the OBN, but at least if the Gulf of Mexico opens up again, would you then plan for new convention 3D seismics or towed streamer and other kinds of it?

Sophie Zurquiyah: Look at the Gulf of Mexico, definitely, and Gulf of Mexico is a core area for us. If you look at historically in the Gulf of Mexico, you had layers of technology and right now, technologies that's required is really that OBN technology. So I would expect that the

Gulf of Mexico, the next, if we were going to invest, it might be probably either full node or a combination of hybrid node and streamer. But it does require that node to get a much more accurate velocity model because the Gulf of Mexico is complex and requires that advance.

Now, what we've been doing in the Gulf of Mexico is a lot of reprocessing because you need both to get a better image. You can advance the technology through the acquisition itself, having better data, more accurate, more dense data, but also the imaging technology advances and we're able already to provide significant uplift onto existing data set, which is why dozens of data. And that we've been doing throughout the last years, so something we're continuing.

Actually, I did say we're reprocessing the stack size. Remember, stack size is our central out to deep water datasets, and that's where you've had, for example, the North Platte is moving from Total to Shell, for example. So there is this very prolific area, and there's still interest in that area, and there are some blocks that are held and we see the interest in the held blocks. So I imagine that if there is an opening then all of a sudden, we'd see more clients interested in, for example, in the stack size. And we started the reprocessing of the stack size sort of because we saw the interest in that area. So we would accelerate and maybe do a larger one because we started with a subset of the data set. So we would go at it from the reprocessing because it can give data quicker to clients. And then we would start talking to whoever is interested to further that next layer of technology that will be required.

John Olaisen: My second question is regarding streamer capacity in the offshore in the – well, streamers are offshore but streamer capacity in the industry for those who have vessels, there's talk now that the vessel owners are planning to bring out more vessels due to higher demand. But I guess with the structural changes we've seen over the last three years with Shearwater making their own streamers and it's the same with PGS. Would Shell be in the position that they could sell more offshore streamers and who would potentially be the clients, please?

Sophie Zurquiyah: And I think definitely we're in a good position to sell our streamers. And so one of the indicators that we follow is we look at how many vessels are in operation at any point in time and we look at sort of our market share, if you wish, how many of those vessels are equipped with Sercel equipment. And right now it is 10 out of 16. So we still have a fairly significant market share or vessels that are in operation, which tells me that yes, when and if because you're saying yes, Shearwater and PGS have their own streamers, but they're not manufacturing either. I think everybody's kicking the can and trying to delay making any spend in CapEx. And so, I do think that we have a significant market share of vessels in operation and again our streamers also use the under core so they use for oceanography like the case that we saw in Korea and then there are vessels perhaps that are country-specific vessels that maybe don't get counted in that sort of international vessel count like Turkey has a vessel and so we do sell streamers in those countries as well.

But the issue that we've been facing is that there hasn't been any CapEx spent in streamer replacement. That's full stop of the story.

John Olaisen: And you haven't seen any upticks or any orders or indications or price uptick, supplies asking for price quotes lately?

Sophie Zurquiyah: That conversation is continued throughout, right? Because the need is there, the money is just – the investment capacity isn't there. The market hasn't allowed this to happen. And what the market needs, it needs those marine prices to go up and they are going up but arguably they're still not very high. So the service companies need to start generating cash and being comfortable about the outlook as well because it's not about generating cash a quarter, it's do they have a confident outlook in 2023 and '24 so they could start making this 13 million CapEx investment that's required to change it for streamer set.

But another data point I might give you is that we're starting to see an increase of technical downtime. And not just from our side, because we are clients of vessels, but it is a pretty much across the service providers, which kind of tells me that there is investment required.

John Olaisen: So technical downtime on the vessels.

Sophie Zurquiyah: Yes, right. And we're clients.

John Olaisen: To streamer issues or engine issues or we would typically –

Sophie Zurquiyah: Streamers, general equipment state and it's not just us, it's an issue across the industry. I mean, it's not a secret, though, those streamers are more than 10 years old. So they're old. And there's a point in time where it's not going to continue working.

John Olaisen: It'll be interesting when we reach that point, that should benefit Sercel. My final question; is it possible to quantify the increase that you see in the day rates?

Sophie Zurquiyah: I mean, the market is – there isn't a lot of data points actually, but I would say – I mean the first of the vessel companies would be better off actually talking about it because we had our – with Shearwater, we have our agreed market rate that we have with our agreement. But eventually after mid this year, we're going to go to market rates. But we'll see. I mean it will be a moderate increase and that's why I'm saying that the market rates aren't very, very high yet. It doesn't need – and then the rates as well, when I look at the rate myself, I include the project cost and if you look at the project cost where we're paying the fuel and the fuel is going up as well. So there's other sources of inflation than just the vessel providers. But we're far from the good what I would call solid market rate to allow investment. It needs a bit more.

John Olaisen: Okay, thanks for taking my questions. Have a nice evening. Thank you.

Sophie Zurquiyah: Bye.

Operator: Thank you. We'll now take our next question. Please stand by. This is from the line of Meyla Belimu-Carmetal from BlackRock. Please go ahead.

Meyla Belimu-Carmetal (BlackRock): Yes, good evening. Hi, thank you very much for taking my question. I've only got one. I noticed you removed the quantitative guidance, unless I'm mistaken, from your outlook. Just wanted to check if my understanding is correct or if I've missed it perhaps and you've removed it earlier. But yeah, I just want to check if that's correct and also if you could give some sort of indication. Obviously, the tone of what the discussion is quite positive but I just wanted to check if there was something quantitative you could give us in terms of revenue development or yeah, anything like that. Thank you.

Sophie Zurquiyah: Actually, we didn't remove it, it just there wasn't anything changed so we just didn't feel like we needed to repeat it, but it's just unchanged basically. Yuri?

Yuri Baidoukov: Yes, good evening, Meyla. Yes, that's exactly the case. So basically, we felt that we don't need to reconfirm our guidance every quarter if there's no change, right? So basically, it's effectively reconfirming it by default. And in this context, we reconfirmed that in Q1 because Q1 was obviously low, but now if you're curious, it's good and basically just we see as Sophie was explaining kind of the upcycle in front of us. So we felt that there was no need I would say to reconfirm guidance.

Meyla Belimu-Carmetal: Fantastic. Okay, many thanks. Panic over. Thank you.

Yuri Baidoukov: Thank you, Meyla.

Sophie Zurquiyah: Thank you.

Operator: Thank you. We'll now take our next question. Please stand by. And the question is from the line of Baptiste Lebacq from ODDO. Please go ahead.

Baptiste Lebacq (ODDO): Yes, good afternoon. Thanks for taking my question. Very easy question I guess for you, regarding lithium business. A couple of years ago, it was 2020, if I'm not wrong, you decided to exit non-seismic data acquisition and what is exactly your policy regarding lithium business; is it just a data interpretation or can we see you coming back with the data crews in order to make also the collecting of the data?

Sophie Zurquiyah: Hi, good evening. So I will state again, there is absolutely no way that we would ever get back in anything that has acquisition in its name. So no, it is what we provide. We provide an understanding of the subsurface, we provide data processing, we provide data and like for example, this is one of the new studies that we released. This is like this analysis of lithium. So we're using our geologies. We're using our geology database to be able to provide information to the mining companies for them to do exploration.

Now, let's say there is data required to do a lithium exploration project. It might require those one of these claims that we sold, we will contract it as we do for the vessels or the client will contract it and we'll process the information. So it would be exactly the same business model as we do in the cycling world. So we'll continue focusing on our excellence and our capabilities. We're not going to step out back into anything that has that acquisition in it.

Baptiste Lebacq: Very clear, thank you.

Sophie Zurquiyah: Yeah, just a commodity, right? And so, it's just I haven't changed my mind on that. And actually when I look at what's going on right now, is – I'm actually even more comforted that we made the right decision.

Operator: Thank you. At this time, there were no further questions, so I'll hand back to the speakers.

Sophie Zurquiyah: Great, well thank you. Thank you very much for all the great questions and for attending in the day. I know it has been busy with a lot of calls today. And of course, we're available for any follow up questions. Thank you very much and have a great evening.

Yuri Baidoukov: Thank you all, goodbye.

[END OF TRANSCRIPT]