Third Quarter 2020 Results

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Welcome

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Agenda

Good morning, ladies and gentlemen. Welcome to this presentation of CGG's third quarter 2020 results. The call today is hosted from Paris, where Mrs Sophie Zurquiyah, our Chief Executive Officer, and Mr Yuri Baidoukov, the Group's Chief Financial Officer, will provide an overview of the third quarter 2020 results as well as provide comments on our outlook.

As a reminder, some of the information contains forward-looking statements, including, without limitation, statements about CGG plan strategies and prospects. These forward-looking statements are subject to risk and uncertainties that may change at any time. 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. Now, I will turn the call over to Sophie.

Section Title

Sophie Zurquiyah

CEO, CGG

Opening remarks

Thank you, Christophe. Good morning, ladies and gentlemen. Thank you for participating in this Q3 2020 conference call. Our presentation will cover our third quarter 2020 operational and financial results.

COVID-19 update

I would like to start with a quick update on COVID-19. Our focus has been on maintaining business continuity. We are fortunate that through our IT expertise combined with the CGG HPC cloud that supports our Geoscience business, most of our employees have been able to work effectively from home. Over the last few months, we have progressively brought back staff into the office.

Overall, we have had a very limited number of confirmed COVID-19 cases. We have had no fatality. In addition, there has been no cross-contamination at our sites, thanks to strict social distancing, wearing of masks, and the overall protocols that we put in place.

With this, along with a strong business continuity of our Geoscience and Multi-client business, our manufacturing sites have, in general, been able to maintain production and meet client demand.

Market trends

Market trends

Moving on to Slide Four. Looking at the market, in Q3, crude oil prices stabilised, but the COVID-19 pandemic is still dramatically affecting global economies and severely suppressing our business environment. In 2020, we have seen some major strategic shifts from the integrated oil companies, especially in Europe, making firm commitments to decarbonise portfolio, increased renewable power generation, GGR balance sheets, and support dividend commitments.

Yet, most analysts' reports project oil and gas as a fundamental source of energy through the energy transition and for a long time to come. As the required investments to maintain production are delayed, this will eventually create an unbalance that will need to be addressed.

During Q3 2020, CGG markets stabilised. However, visibility remains low with the second wave of lockdowns in Europe and the evolving geopolitical landscape in the US. We will monitor the situation closely and assess the implications. However, at this stage, I do not see clients making additional CAPEX cuts.

Geoscience and Multi-Client

Geoscience and Multi-Client markets are mainly driven by the large independents and NOCs, which have remained focussed on their core business of producing oil and gas. IOCs are largely still reorganising, cutting headcount right now, in their 2021 budgeting process.

I expect commercial activity will remain low through November. However, there should still be some year-end budgets available for data and software purchases. In general, as I expected, as expressed clearly by our clients, they are retrenching in their core areas and they are prioritising CAPEX to the lower risk, highest return projects.

In this environment, our Geoscience imaging technology plays a key role as it enables our clients to make surgical choices to sign a CAPEX. Reprocessing, in particular, is a cost-effective alternative to new data acquisition. We have seen the balance between processing and reprocessing shift towards reprocessing.

Equipment

Our Equipment business is also benefitting from NOCs, sustained activity in Land in North Africa, Middle East, Russia, and India. More recently, in October, two of the three land 3D mega-crews in Saudi and one land 2D crew have been awarded to geophysical contractors.

CGG's strategic rationale remains strong, our three differentiated businesses are well-positioned with the best technology and increasingly working together to best serve our clients and to develop unique solutions. In parallel, CGG is reducing costs and quickly adapting to our clients' new activity levels, while preserving our differentiated capabilities as activity is resuming.

In addition, we continue to advance our new initiatives, focussed on leveraging our core capabilities in new step-out markets, and following our clients in support of the energy transition.

Operational review

Q3 2020 highlights

Moving on to Slide Six. Overall, Q3 was similar to Q2. Our Q3 revenue of $199 million was sequentially stable, with GGR's $150 million driven by increased Multi-Client revenues and Equipment at $50 million.

Group-adjusted segment EBITDA before $28 million non-recurring severance costs was $18 million, up 6% sequentially and with a 40% margin. Group-adjusted segment operating income before $30 million non-recurring charges was -$4 million, not far from breakeven, and slightly better than our Q2 adjusted segment operating income. Ahead of increase in Q4 sales, especially in Equipment, our change in working capital was especially high at -$37 million as we started to ramp-up inventory of Land products.

CGG consumed, this quarter, $26 million of exceptional cash costs related to our saving plan, essentially severances. After the $37 million of negative change in working cap and $26 million of non-recurring charges, the net cash flow this quarter was -$92 million. This puts our liquidity at $465 million at the end of September, which allows us to operate comfortably.

GGR key financial indicators

I will now cover our Q3 2020 operations by reporting segment on Slide Seven. Overall, GGR our top line increased sequentially 4% to $150 million with the unadjusted EBITDA margin of 57%.

For the first nine months of the year, our year-on-year revenue drop of 28% is consistent with our clients' overall E&P CAPEX reductions. While CGG has an important role to play in exploration, the majority of our work comes from development and production activities.

OPINC before non-recurring charges was positive at $10 million, up 7% sequentially.

Geoscience key business indicators

Total production and backlog

Moving on to Geoscience with Slide Eight. Geoscience total production was $111 million in Q3, sequentially stable with higher internal production for our Multi-Client projects. Business remains solid in Europe, Africa, Middle East, and Latin America. Commercial activity rebounded in Q3 after a very low Q2 and backlog only decreased by $10 million this quarter to $204 million at the end of September.

We have been awarded several significant contracts in October, resulting in an increase in Geoscience backlog.

Geoscience personnel

We are introducing a new quarterly KPI dedicated to our Geoscience personnel, which we believe is relevant. Compute power, which we have reported earlier, is an enabler. However, the unique profile of people at CGG makes the difference.

The Geoscience division, at the end of September, was around 1,900 employees. 15% are dedicated to R&D and 55% to production, which is essentially the data processing people. 27% of our production and R&D employees have a PhD.

Operational Review

Geoscience operational highlights

Continued adaption to lower demand

Now, on to the operational highlights with Slide Nine. Geoscience activity remained resilient in Q3, driven by sustained activity in both our large imaging centres and dedicated centres, which offset reduced activity in our smaller processing centres regionally. Our GeoSoftware business was successful in retaining maintenance revenue, which also supported our performance. Q3 total production was down 13% year-on-year and 2% sequentially.

The business continuity of our Geoscience division has been excellent. All projects throughout the pandemic were delivered on time with excellent quality. Cash preservation and profitability has been and continues to be the key focus. Geoscience has been able to quickly adapt to lower demand and we continue to reduce costs as required.

Leading technology recognised by major clients

CGG's Geoscience leading technology continues to be recognised by our key clients and we are consistently rated number one in their supplier evaluations. We continue to see demand for high-end services that solve complex problems in difficult subsurface environments.

Geoscience – providing solutions to industry in transition

On Slide Ten, as of recently, and in order to provide more visibility and clarity into our Geoscience business, we have been increasingly sharing publicly via press releases our technology innovations and commercial achievements. Our technology advances are impressive and clients rely on us to resolve some of their complex challenges.

Recent commercial awards ranged from a geothermal resources study for a major client and several high-end reprocessing projects to cloud computing software and data management. We will continue to update you in the future.

Multi-Client key business indicators

Let us move on to Multi-Client with the Slide 11. In the last two years, Multi-Client made a conscious effort to increase focus in development and production areas and is much more cautioned in frontier basins as they were believed to be less robust. This was a very successful and timely decision.

Data library

Our Multi-Client library today is very well-positioned in proven, developing, and mature sedimentary basins. These unique positions in key basins globally provide us with visibility and opportunity in Brazil and Norway for 2021. We have opportunities to extend our footprint and reprocess our data by leveraging advances in technology.

Revenue

In Q3, Multi-Client revenue increased 20% sequentially, driven by solid prefunding and increased after sales. Pre-funding revenue was $39 million in Q3, a 68% prefunding rate. After sales increased sequentially to $34 million, driven by Brazil and Gulf of Mexico.

Multi-Client – worldwide footprint in proven and mature basins

Q3 2020 projects

On Slide 12. In Multi-Client, we also saw excellent continuity. Despite COVID-19, all of our operations in several countries progressed uninterrupted.

We had five Multi-Client projects in acquisition during the quarter, including the Central Basin Platform, a land survey that was completed this quarter. Along with this, we also had four well-prefunded Multi-Client programmes offshore.

- Nebula in Brazil, a 17,700 square kilometres programme in the Santos Basin, which is attracting a high level of interest from clients. We announced last week Phase II. Phase II will cover approximately 10,000 square kilometres on the northern side of the survey area. CGG's industry-leading subsurface imaging centre in Rio de Janeiro will employ state-of-the-art processing technology to eliminate the presalt events.
- This quarter, we also completed the 8,700 square kilometre Gippsland programme in a mature producing base in offshore Australia.
- The third programme is an ocean bottom node survey in the Cornerstone area of the UK North Sea that we are acquiring in partnership with Magseis.
- Finally, we extended our North Viking Graben data library in Norway and validated the value of a second azimuth in that area.

Looking at the rest of the yea, we expect 2020 Multi-Client cash CAPEX of around $225 million, with a solid prefunding rate of more than 75%.

Multi-Client – technology creates business reprocessing opportunities in key mature basins

Major reimaging campaign is conducted in the Gulf of Mexico

On to Slide 13. In addition, we also commenced this quarter multiple reprocessing projects. The first is the reprocessing of our Multi-Client stack size marine survey in the Gulf. The first phase of this reimaging project is bringing new light to the data and major improvements in key areas. Clients are very interested in this as it has the potential to substantially derisk this prolific area.

Walker Ridge

We also launched our Walker Ridge programme, a reprocessing programme in the central Gulf, covering 300 OCS blocks, which is around 7,000 square kilometres. That is what is shown on this slide. It is leveraging all of our existing data sets and the latest technologies. Several clients already joined the project, given the attractiveness of the area.

In general, for reprocessing projects, we look for opportunities where we can create significant uplift via new technology and bring to the market more cost-effective and quicker alternatives by new acquisition.

With our unique processing technology, we can extend the life of Multi-Client data sets by rejuvenating legacy fully depreciated data. On that picture, you can clearly see the improved definition of the structures below the salt on the images as well as the continuity of the layers that were impossible to see before.

Equipment – key financial indicators

Moving on to Equipment now, with the Slide 14. Our business in Equipment continued to be supported by the large install base that we have in Land and Marine and, in particular, by NOCs that have continued with their land exploration and development projects.

Segment revenue and adjusted segment EBITDA

This quarter, Equipment segment revenue was down 14% quarter-to-quarter at $50 million due to the continued reduced demand for Land equipment and the general lumpiness of sales in Equipment, the very weak market, and delays in some deliveries due to the pandemic situation in different countries.

Marine equipment sales remained at the lowest levels as the total market fleet has been reduced to 14 3D vessels and geophysical contractors continue to try and extend the use of their existing streamers past the typical lifespan. At this time, half of the active 3D fleet is equipped with Sercel equipment. Equipment segment EBITDA was at breakeven, which shows our ability to adapt our structure to the market cycles.

Equipment overview

Activity and demand still impacted by the downturn

Moving on to Slide 15. During the quarter, Equipment delivered over 50,000 508 X-Tech channels, mainly to India and Russia. Sercel also delivered its first node land WiNG system in North America, which is very positive news, demonstrating that we have a competitive land node product. After the award of the seismic crews in Saudi Arabia, we are in advanced discussions with the geophysical companies and I am encouraged by the potential outcome.

Demand for Marine equipment, both streamers and nodes, is expected to remain low throughout 2020 and into 2021 as geophysical contractors stack more vessels and try to reuse all streamers and extend their life as long as physically possible.

In this context, due to the downturn in the oil and gas industry triggered by the COVID-19 pandemic, CGG and Shearwater have jointly agreed to suspend negotiations around creating a marine stream equipment JV until visibility in the streamer replacement cycle improves. We are committed to continuing our mutually beneficial cooperation.

In our non-oil and gas segment, we had a successful joint test with our partner for Sercel's new Structural Health Monitoring node prototype designed for the growing high-end infrastructure monitoring market, and we are now preparing for the commercial launch.

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

Financial Review

Yuri Baidoukov

Group CFO, CGG

Q3 2020 income statement

Thank you, Sophie. Good morning, ladies and gentlemen. Looking at the consolidated P&L for the third quarter of 2020 on Slide 17, our segment revenue from new profile amounted to

$199 million, stable quarter-on-quarter. GGR contribution was $150 million, a 4% increase quarter on quarter with 75% weight.

Geoscience revenue was $77 million, a 7% increase quarter-on-quarter. Multi-Client sales were at $73 million, increasing 18% sequentially on higher after sales. The Equipment revenue contribution was $50 million, down 14% quarter-on-quarter with 25% weight segment.

Segment EBITDA was $52 million, down from $68 million in the second quarter of 2020. Adjusted segment EBITDA was $80 million before $28 million of severance cash costs with 40% margin, and up 6% sequentially. Segment operating income was -$38 million, up from -$53 million last quarter. Adjusted segment operating income was -$4 million before $34 million of non-recurring charges, up from -$5 million in the second quarter.

IFRS 15 adjustment at operating income level was -$5 million. IFRS operating income after this IFRS 15 adjustment was -$43 million.

Cost of financial debt was $34 million, including a non-cash PIK component of $12 million. Net loss from continuing operations was $88 million and adjusted net loss from continuing operations was $47 million, before $41 million of non-recurring charges. Net loss from discontinued operations was $5 million. Group net loss was $93 million.

Q3/9M 2020 simplified cash flow

Moving to Slide 18. In Q3 2020, segment operating cash flow was -$12 million, including a significant negative change in working capital of $37 million on increased Equipment inventories for upcoming higher sales in Q4 and higher Multi-Client sales in September. Segment operating cash flow also included $7 million of paid severance costs.

Our Multi-Client cash CAPEX of $58 million was down 20% quarter-on-quarter and what is prefunded at 68% on the back of a solid portfolio of ongoing well-prefunded projects. Industrial cash CAPEX and R&D costs in our Geoscience and Equipment businesses were stable at $13 million.

Q3 segment free cash flow, including $37 million of significant negative change in working capital and non-recurring severance costs, was negative at $59 million this quarter. Q3 cash cost of debt was $7 million and Q3 net cash flow from discontinued operations was positive $8 million this quarter.

Q3 cash costs related to the implementation of CGG 2021 Plan were at $19 million. Cash costs related to new severance was $7 million. Overall, net cash flow this quarter was negative at $92 million.

Balance sheet and capital structure at 30th September 2020

Looking at our Group balance sheet and capital structure on Slide 19, our liquidity decreased to $465 million at the end of September 2020 and remains solid. Following the exit from acquisition business, CGG, with its new asset-light profile, has lower capital intensity. We have no debt maturities before 2023 and $150 million in those required to run the business, our current liquidity levels allow us to securely navigate through the current market environment.

At the end of September 2020, our gross debt was at $1.374 billion or $1.213 billion before after IFRS by the following breakdown:

- $628 million firstly in the USD and euro bonds due in 2023,
- $559 million, secondly, in USD and euro bonds due in 2024,
- $26 million other items, mainly accrued interest,
- And $161 million lease liabilities, including $41 million of Galileo financial lease and $120 million of operating leases under IFRS 16.

Looking at our financial leverage ratios, at the end of September 2020, net debt to shareholder equity was at 75% and segment leverage before IFRS 16 was at 1.9x net debt to last 12 months EBITDA. At the end of September 2020, our capital employed was at $2.17 billion, down from $2.3 billion at the end of 2019.

Net working capital after IFRS 15 was up at $168 million. Goodwill was down at $1.18 billion, corresponding to 54% of total capital employed. Multi-Client library net book value after IFRS 15 was at $499 million, including $416 million of Marine and $84 million of Land net book value.

Other assets worth $472 million, including $279 million of Property, Plant, and Equipment, down from $300 million at year-end. $167 million of IFRS 16 right-of-use assets, of which $41 million related to the [inaudible] financial lease. $156 million of other intangible assets, stable year-on-year.

$37 million of other non-current assets, up $7 million from 2019 year-end, mostly from Shearwater Vendor Notes of $19 million. Other non-current liabilities were at $144 million, including $93 million of non-current portion of liabilities related to capacity agreement with Shearwater, split between $45 million related to off-market components and $48 million to idle vessel compensation. Shareholders' equity was at $1.26 billion, including $41 million of minority interest mainly related to the JunFeng JV.

2020 adaption plan

Reduced CAPEX across all business lines

Moving to Slide 20, we continue to operate in uncertain times and turbulent environment. This is why we stay focussed on what we can control by significantly reducing our cash costs and CAPEX, continuing to generate cash from operations, and preserving our liquidity.

Our CAPEX guidance remains unchanged, as was communicated back in May. We are also well on track without our cash costs reductions, mainly coming from adjustments to our headcount across the world, where there were a couple of them implemented by the end of Q3.

Now, I hand the floor back to Sophie for her concluding remarks.

Conclusion

Sophie Zurquiyah

CEO, CGG

Closing remarks

CGG markets stabilised

Thank you, Yuri. I would like to reiterate that in Q3, we saw the CGG markets stabilise. Barring any new volatility from the US political backdrop and lockdowns in Europe, CGG's revenue appears to have reached the bottom. At current, we also anticipate a typical seasonality pattern in Q4, with high Multi-Client sales and increasing Equipment deliveries.

Protecting core markets

During the first nine months of 2020, we have been able to maintain or increase our market share in our core businesses, thanks to our unique technology, which remains key to our clients for improving their understanding of the subsurface and supporting the prioritisation of their energy investments.

Reinforcing technology leadership and accelerating offerings for energy transition

Our technology, which is essential for step-out exploration, development, and production, combined with our focus on mature basins provides CGG with a unique value proposition to our clients. We are progressing well in the development of new offerings in adjacent fields, including structural health monitoring, carbon capture, sequestration and storage, geothermal and environmental Geoscience.

Achieving stronger financial performance

I would like to conclude by confirming that while we are preserving our ability to capture the market recovery and achieve stronger financial performance in 2021, we are well on track with the implementation of the cost reductions that are required to align CGG with a rebased level of activity in the industry and to protect our cash, going forward.

Thank you very much for your interest. We are now ready for your questions.

Q&A

Nick Konstantakis (Exane BNP Paribas): Good morning, guys. Thank you for taking my questions.

One for Yuri, to start with. You have a decent amount of cash on the balance sheet. Are there any options you have around your debt to retire any part of it? Are you considering any other usage for this cash?

Then, I guess related to that, what is your current thinking around refinancing? What are the conditions you are seeing in the market right now? I appreciate we are coming out of a very difficult period, so any colour would be appreciated.

Then, one for Sophie. You follow your clients' results quite closely. You speak with them every day. It seems to the refocus towards more mature bases and less on frontier plays well with the repositioning you guys have done. I appreciate it is quite early to ask this.

However, when you think about a few years out, what do you think would be a good run rate Multi-Client SES, when you think about the mix of the business, going forward? Thank you.

Sophie Zurquiyah: Okay. Thank you. Yuri, I will let you start.

Yuri Baidoukov: Good morning, Nick, and thank you for your questions. You are absolutely right about our level of liquidity. Unfortunately, with the current covenants package that we have around the first and the second lien bonds – and to remind you, the current capital structure, of course, was the result of CGG exiting from bankruptcy and restructuring in February 2018.

These covenants prevent us from extinguishing or at least trying to reduce the second-lien bonds, which is the most expensive with its big component of 8.5%. This is yet another reason and another driver for us to refinance both the first and the second-lien bonds in the near future.

Now, there is a one element in relation to the second-lien bonds. This is the core premium of 12.5%, which drops to zero in February of next year. That results in significant reduction in cash that we will need to pay upfront.

With that, our objective remains the same. It remains unchanged. We are working on preparing for potential refinancing of both the first and the second-lien bonds as early as March next year. That work includes ensuring that we will be in a position to not only publish our annual results, but also publish our URD our annual report, at the same time.

In this refinancing exercise, another objective, of course, will be to move to the normal covenant package and no longer have restrictions similar to what we have currently, unfortunately. Now, that being said, of course, this will depend on the market environment early next year.

Now, if we look at our first-lien bonds as they are trading today, they have been stable at slightly above par, which is a good indicator that even in the current environment, we should be able to tap into the markets. Again, we will wait until March because of this $67 million to $68 million or core premium associated with the second-lien bonds, which will become zero in February of next year.

I will pass it now to Sophie to answer you –

Sophie Zurquiyah: Yes.

Yuri Baidoukov: – on the second question.

Sophie Zurquiyah: Yes. Thank you. Hi, Nick. Multi-Client revenues mix, you have to understand where the revenue comes from, to be able to respond to your question. There are two revenue streams. One is the prefunding, which is highly correlated to the CAPEX. Then, the other one is the after sales, which is selling the data that we have on the shelf.

Obviously, that revenue stream, if you look at CGG's past revenue, it was almost equivalent between the prefunding and the after sales. Again, that prefunding was linked to the investment that we were making. I think the future – so that is one point. The revenue that we will make will depend on our ability to invest or our willingness to invest and our ability to find good projects.

Then, the other element that you have to consider is the appetite from the other players in the market and the relative market share that CGG will have in the future. If you look at what has happened more recently, we have increased our market share a bit naturally with the fact that we have invested less in those frontier areas.

The total market for Multi-Client was around $2 billion to $2.5 billion pre-COVID-19. That market is reduced by around, let us say, 30%. It is somewhat in line with Exploration & Production CAPEX. I would think that typically, as things improve, we see a recovery first in the after sales.

If you look longer term, my ambition was certainly to bring back the Multi-Client revenue closer to where we were, which is around that $500 million mark, with all the caveats that I explained: that it depends on the CAPEX, it depends as well on what other players will do.

Does that answer your question?

Nick Konstantakis: Yes. Exactly. I was going through the late sales. Thank you.

Kévin Roger (Kepler Cheuvreux): Yes. Good morning, and thanks for taking my questions outdoors. I hope that you are doing well.

The first question would be related to the movement in the working cap that you faced this quarter. You mentioned that this is basically related to future Equipment sales. I was wondering if you can precise us how big the environment around those sales. Let us say that, is it related to the Saudi Aramco mega-crews that you were expecting? Does it mean that you will have deliveries in Q4? Based on that, what will be the impact on your Q4 sales, please? If you can precise us your environmental in these movements in working cap?

The second question is, more broadly, Sophie, it seems that based on the comments that you gave during the presentation, it seems that maybe Q3 was, let us say, the low point, in terms of revenues and margin, because you seem to expect favourable [?] in the kind of improvement in the coming quarter. Can you maybe give us a bit more information, in terms of dynamics that you expect, in terms of top line and margin, let us say, for the next maybe two to three quarters, in terms of dynamics, please?

Sophie Zurquiyah: Thank you, Kévin. *Bonjour.* First, on the on the Equipment sales in Q4. Typically, in Equipment, we build based on a manufacturing plan because the clients come in and expect deliveries within three to four months, typically, where the manufacturing cycle is longer than that. It is somewhere around nine months. We cannot wait to get the order to start the manufacturing. This is like the way Equipment works.

We have been building Equipment in anticipation of stronger deliveries in Q4. That has definitely had an impact on our inventory. However, I want to say as well that this inventory that we are building is standard equipment. This is what we sell to India, to Russia, to Middle East.

Yes, we are expecting that we are building based on our expectation to be selling Equipment to Middle East in Q4 and Q1. However, we are still in negotiation. It is a bit early to share more precise news at this point in time, although I did mention that we are having encouraging conversation. That is the one on the Equipment.

Now, I did mention that we are at the low point. You have seen the clients have said that they are reducing their CAPEX of 30%. Basically what I am saying is that that is where we are. Then, I do expect that we will be staying in that environment probably the first half, if not the whole year in 2021, which means that going into Q1, we will see Q1 rebased to that new environment compared to the Q1 last year. We are sort of rebased at that low point. I do expect we will see a similar environment in the next few quarters.

Keep in mind, when you look at the margins, that it is highly dependent on the mix between the three businesses. We have three businesses that have very different EBITDA margins in between the Multi-Client, very high EBITDA margin, the Geoscience, somewhere in the middle, and then Equipment, with lower EBITDA margin. That aggregate EBITDA will highly depend on the mix.

I wish that answers your question. However, I do definitely see that we are at that $200 million level for the quarter. I do not expect, moving forward, that will get significantly lower from that number and that we should be seeing improvements. However, again, the margin will depend on the mix.

Kévin Roger: Okay. I understand. Thanks for that.

Christopher Møllerløkken (Carnegie Investment Bank): Yes. Good morning. Regarding the Equipment you are building on the balance sheet, are you saying that you are building this on speculation or are you confident that you will be able to sell this? If so, what do you expect the working capital development to be in fourth quarter and first quarter next year?

Sophie Zurquiyah: Yes. Like I said, it is not like something new that we are doing now. It has always been the model of the Equipment business. There is a close conversation or discussion between the sales people and the manufacturing that drives our manufacturing plants. If we are building this equipment or increasing our inventories, that we have high hopes that we will be able to sell that equipment.

Again, it is standard equipment. It is not like we are building custom-build equipment for a particular client or project. It is standard equipment. Yes, the answer is that we have high hope of doing those sales. Otherwise, we would not be building and spending working cap for that.

Anything –

Yuri Baidoukov: Regarding the outlook –

Sophie Zurquiyah: – to add?

Yuri Baidoukov: Yes. Good morning, Christopher. Regarding the outlook for the dynamics of changing working capital, this quarter, one element was inventory to sell on the Equipment side, but the other element was also increasing revenue in Multi-Client as well. That was the kind of two main contributing factors to the negative change in working capital.

Looking at the fourth quarter, what we expect? As the delivery of the equipment most likely will start towards the end of the quarter, that will translate in the increase in accounts receivable. Then, of course, subsequently, these receivables – and, by the way, sales will continue in Q1 as well. Of course, the receivables will be collected in the first half of next year.

Secondly, as Sophie has mentioned, we still do hope that there will be a so-called Christmas after sales on the Multi-Client site. Of course, the magnitude of them will not be the same as last year. However, we do have some early indications from some of the customers that they did spend. Even they reduced their budgets so far. They will need data to fit into their Geoscience teams.

With that, there will be the same phenomena on the Multi-Client side as well where, basically, Multi-Client receivables will go up as well. Hence, there will be also negative change in working capital. Of course, again, this will be collected in the first quarter of 2021.

I hope we answered your questions?

Christopher Møllerløkken: Yes, thank you. With regards to the non-recurring charges in Q3, can you say how much of that was cash costs?

Then, the second question would be, could you also provide some guidance for charges, going forwards, both for Q4 and for 2021? How much of that will be cash?

Yuri Baidoukov: Sure. When it comes to cash costs in the third quarter, in relation to costs related to exit from acquisition business – what we call the CGG 2021 Plan – we have $19 million of cash costs this quarter. In Q4, it will be around $12 million. With that, the total guest costs for the year will stay around $80 million, as we kind of guided previously.

Now, there is also this new severance cost that we are incurring on the back of reducing our headcount and reducing our cash costs. That amounted to $7 million of cash severance payments in the third quarter. We anticipate in the range of about $5 million in Q4.

With that, the cash sequence for new severance will be around $15 million, overall, in 2020. The remaining $35 million will be paid mainly in the first half of next year because we are continuing, basically, with our headcount reductions. That is the sequence, Christopher.

Christopher Møllerløkken: Thank you.

Yuri Baidoukov: Yes. Of course, this severance plus new severance costs will generate significant cash costs savings, again, as we discussed during our second quarter call. We reiterated this in our adaptation plan. We will be reducing our fixed cash costs by $90 million annually.

Christopher Møllerløkken: Thank you.

Phillip Buckner [?]: Hi. Good morning. I just have two questions. The first one is on the cash flow statement. It shows $5.2 million repayment of long-term debt. I was just wondering which debt repaid during the quarter?

Then, in the press release, you mentioned that you are making progress towards adjacent fields. Could you talk a bit about like how large the revenue potential for these adjacent fields is in the future?

Yuri Baidoukov: Good morning, Phillip. Can you please kind of clarify your first question?

Sophie Zurquiyah: $5.2 million of repayment of debt. That is just the interest, is it not?

Yuri Baidoukov: No. Actually, the cash debt was $7 million. We did not pay back any debt.

Christophe Barnini: The remaining bulk of the debt, which is due to the full year. We transferred it.

Yuri Baidoukov: Phillip, yes, this $5 million or $5-point-something million was related to us paying off the remaining creditors that we have had, following the exit from bankruptcy and restructuring. That was done together with our application to the Commercial Court of Paris for the exit from, what is called in French, [French, 00.45.49]. Basically, we paid down the remaining creditors who could not convert into equity.

Sophie Zurquiyah: Yes. Thank you. Hi, Phillip. On your question on adjacent fields, I have listed the number and we are in the process of updating our strategy for the next three-year cycles. We did 2018 to 2021. 2018 to 2021 was about repositioning the company to be resilient through the cycle, which was timely. Now, 2021 to 2024 would be about growth and looking for those adjacent fields.

Now, of course, my ambition is that those adjacent fields represent a significant portion of our revenue. Otherwise, it is a bit meaningless. It does depend on the client pickup or the market growth itself. We are in the process of analysing and understanding where our core capabilities fit.

The sweet spot is where we can rely on and where we are good at, and a lot of it is around subsurface and Equipment, and where our clients are going. Our clients are talking about geothermal and carbon sequestration. We believe there is a sweet spot where we could do well.

What my aim would be at a certain horizon, that this represents somewhere around 20% of the revenue stream of CGG. If you would asked me how do I achieve that? I do not know yet. That is what we are working on, as part of our strategy. However, this is the kind of ambition that we will give to the team.

Phillip Buckner: That is helpful. Thank you.

Sahar Islam (Goldman Sachs): Good morning. Thank you for taking my questions. The first one I had was on the Land Equipment tendering pipeline and as much visibility as you can give, please, into 2021, whether there are any more mega-crews coming up?

Then, secondly, on the refinancing. Yuri, do you reminding us when you can refinance next year and what you would need to see for market conditions, in terms of COVID or just general market volatility for you to be able to execute that refi, please?

Sophie Zurquiyah: Yes. Hi, Sahar. Good morning. On the Land Equipment, it is a bit early across the board to give you 2021 visibility because we are just starting our budgeting process. However, what I could say is I do think that on that Land side, we have reached a low point.

Typically, Equipment is the CAPEX of geophysical contractors that react immediately to the difficult market conditions. I think that is what we have seen in 2021. Generally –

Yuri Baidoukov: In 2020.

Sophie Zurquiyah: In 2020, sorry. Generally speaking, I would expect that we see some improvement on the Land side of the Equipment. The Marine, I think, will be very similar, at the low level.

Now, in terms of visibility, in Saudi, I mentioned two 3D crews have been awarded. There will be one more awarded that is pending. Algeria as well has one large 3D crew. Actually, interestingly, Algeria has been quite busy, as of recently, a bit countercyclically. Then, Russia and India are still active. That is a low point on Land Equipment in 2020.

Improvement? I do not know how much, but there is activity coming from NOCs.

Yuri Baidoukov: Good morning, Sahar. Regarding your second question, I already mentioned that yes, we are working on preparing ourselves for potential refinancing as early as March next year. That being said, of course, fortunately, we are in a position where we do not have to jump into debt markets because the first maturity of our first-lien bonds is in April of 2023.

That being said, of course, the second-lien bonds, which, again, are the legacy of exiting from bankruptcy and restructuring, are expensive with a 8.5% PIK component. Again, in this refinancing exercise, we will be looking at the wholesale refinancing of both, the first and the second-lien bonds.

We are ensuring that we are ready from the kind of technical perspective that everything is on the shelf. That would open the first technical window in March of next year. Of course, as you rightfully pointed out, it will depend on the market conditions. If market conditions will be favourable, we will kind of jump into this window. Equally, if they are not there, we can wait and we will. Basically, that is our strategy.

I hope I answered your question, Sahar?

Sahar Islam: Very clear. Thank you.

Christopher Møllerløkken: Yes. Thank you. Just a follow-up regarding 2021 Multi-Client investments. Would you care to give any indications for that level for next year?

Sophie Zurquiyah: Hi, Christopher, again. I could give you sort of directional views, but certainly not numbers yet. However, if you look at how our Multi-Client CAPEX is composed of, there is always that Land side of Multi-Client CAPEX. Then, there is the Marine side, or the streamers side and then the nodes, as we started to invest and, of course, the reprocessing, but those are smaller amounts.

I would say, generally speaking, the Land, as it is today, we are not seeing very interesting projects or we have a pipeline, as always, for all the projects. However, I would expect that certainly reduced investment on the Land side and probably somewhat similar on the Marine side.

The node is a question. It really depends on the projects that are presented during the budgeting cycle that is coming up. Those are typically more difficult to prove because the CAPEX is more expensive. The economics are not always as interesting as the streamer surveys. That is, generally speaking, I would say, less in the Land US side because there is just not such an active market right now.

Yuri Baidoukov: I can to what Sophie said that, of course, this year, as you might recall, we did enter into the year with a strong portfolio of ongoing well-prefunded projects. That is why – although we reduced our CAPEX versus the original guidance significantly – in fact, from overall $300 million to about $225 million.

The next year, we definitely have much more flexibility. We will continue with our project in Brazil. We are also looking at continuing our North Viking Graben project next summer in Norway. With all that, again, directionally, as Sophie said, our CAPEX will be lower definitely than this year.

Christopher Møllerløkken: Thank you.

Christophe Barnini: Now, I hand the floor to Sophie for the conclusion. Thank you.

Sophie Zurquiyah: Yes. Thank you, everyone, for attending this call. I know you all want to know about 2021. However, I think we will have an opportunity to give you more information after we get through our budgeting cycle.

Thank you, again, for attending and your great questions. We will be in touch.

Yuri Baidoukov: Thank you. Bye-bye.

Sophie Zurquiyah: Bye.

[END OF TRANSCRIPT]