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EDITED TRANSCRIPT

CGG.PA - Half Year 2016 CGG SA Earnings Call

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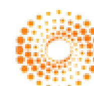

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PRESENTATION

Operator

Good day, and welcome to CGG's second-quarter 2016 conference call. Today's conference is being recorded. At this time, I would like to hand the conference over to Ms. Catherine Leveau, SVP, Investor Relations. Please go ahead.

Catherine Leveau - *CGG SA - SVP, Investor Relations*

Good morning, and welcome to this presentation of CGG's second-quarter 2016 results. My name is Catherine Leveau, SVP, Investor Relation. The quarterly financial information including the press release, the presentation and a streaming audio webcast of this call are available on our website at www.cgg.com.

Some of the information contains forward-looking statements including without limitation statements about CGG plans, strategy and prospects. These forward-looking statements are subject to risk and uncertainties that may change at any time, and therefore, the actual results may differ materially from those that were expected.

The call today is being hosted from Paris, where Mr. Jean-Georges Malcor, CEO; and Stephane-Paul Frydman, SVP, Finance and Strategy and Group CFO will provide an overview of the first quarter as well as provide comments on our outlook. Following the overview of the quarter, we will be pleased to take your questions.

And now I will turn the call over to our CEO, Jean-Georges Malcor.

Jean-Georges Malcor - *CGG SA - CEO*

Thank you, Catherine, and good morning all. So referring to the presentation that I suppose you have and starting with the Group overview, in the second quarter we have been operating in a market which remained challenging and characterized by very low pricing and very weak demand.

However, the conditions seemed to have somewhat stabilized with the recent oil price increase, and more importantly, over the last three months some E&P deals have been launched and the nature of the conversation with our customers is certainly changing, showing early signs of improvement.

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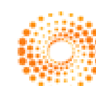

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There is a growing sentiment and understanding that current conditions are unsustainable for the sector, not to guarantee the level of expertise needed, not to ensure the ability to address the inevitable recovery. At the same time, there is also recognition that the recovery may be very different than the ones that we had in the past and that a more proactive and buccaneering approach will be necessary between the various players.

Some customers are more and more open to dialogue and interested in new ways of doing business. In addition, we are seeing some of our customers considering strategic counter cyclical approach to be ready when the market recovers while maintaining the expertise that the sector needs.

H2 will be interesting as customer will enter into their budgeting cycles and may be keen to give us more visibility and improve their contracting terms. So there are very early signs of improved market sentiments and we may have well reached the bottom of the cycle or close to one. But let me say right away that it has not yet translated into better market conditions nor better volumes. We think that it will take a few quarters to stabilize fully and we expect that current conditions will persist in 2016.

In the meantime, we keep a strong focus on our priorities, operational excellence, strong delivery on all our prospects, swift execution of our transformation plan, strict control of our cost and stringent management of cash.

So looking now at our Q2 performance, which was strongly sustained this quarter by GGR. Our total revenue were $290 million, down 7% quarter on quarter, and operating income before non-recurring item was at negative minus $22 million. If we exclude the non-operated asset, the active Group was actually close to breakeven this quarter. All-in-all, Q2 results were driven by sustained GGR performance.

GGR indeed benefited from a good level of multi-client sales with a high 84% cash prefunding rate and from a solid performance in SIR.

On the equipment side, sales and margin were strongly impacted by very low volumes with market conditions more challenging than expected. We had lower seasonal sales, which would however have reached the low point this quarter.

Contractual data acquisition posted lower revenue due to the program reduction of the fleet, which is going as scheduled, and due to the fact that 66% of the fleet allocation was done to the multi-client programs.

Looking at the EBITDA, the Q2 EBITDAs were at $104 million. They include this quarter some R&D tax credit we were able to book as a result of our long-term research and development investment policy.

On the financial and cash side, after the successful execution of our capital raising in Q1 and thanks to a very solid performance in our operation, we benefited this quarter from a good cash generation, giving a first half with a positive free cash flow at $97 million versus minus $83 million in H1 2015.

This means that our H1 free cash flow is positive at $8 million after taking into account the non-recurring payment related to our transformation plan. We are therefore a leverage ratio with a good headroom at 3.9 times, with a net debt level at $2.15 billion at the end of June, quite close to the level we had in March.

As we said many times, we are focusing on what we can control, i.e., delivering the transformation plan, implementing a very strong cost discipline and monitoring our cash very closely.

Before looking in detail for each division at the financial performance, let me give you a little bit of color on the operation highlight for Q2. I'm on slide 4. Starting with multi-client, this quarter we continued our survey in Brazil and we were active in Scandinavia as we were shooting the second part of the Northern Graben program. We were also active in Ireland.

As I said before, we will give you our multi-client fleet utilization for the two quarters to come to have pure modeling our activities. After a low Q1 with 25% on the overall fleet dedicated to multi-client work, this ratio has moved up to 66% in Q2, should reach circa 75% in Q3 and go down to about 35% in Q4 as we have in Q4 some important contractual surveys which are already booked.

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As usual, strategic licensing rounds are driving the activity and clients can come before or after being awarded a block, but after a good Q2 particularly on OP on prefunding, there are signs of interest and good discussion for the rest of the year.

Going to subsurface imaging and reservoir, in subsurface imaging, we are pursuing our technology and innovation journey in helping our clients providing differentiated product and services. Let me outline some of the key achievements. We did complete the final phase of StagSeis deepwater 3D Gulf of Mexico data library project, [Trois] high-quality, full-azimuth broadband, long-offset dataset was delivered with advanced CCG imaging technology on time. It is now being marketed to our customer base.

We have had this quarter some top recognition from some of our customer for the outstanding improvements in imaging complex structures; GeoSoftware, launch of a series of innovative new releases across its reservoir characterization for that portfolio to offer a full suite of powerful software solutions to overcome the most complex subsurface challenges.

In equipment, in Middle East and more specifically in Saudi Arabia crews continued to achieve a good operational performance and the 508XT is regularly breaking new records. We also started this quarter the 508XT crew in Russia, which is a new and very harsh environment for this equipment, and this Sercel in Russia went very well.

Contractual data acquisition as scheduled, an average of five vessel fleet was operated this quarter with a low level dedicated to contractual marine, 34%, in accordance to the -- our current refocusing on more multi-client work. Thanks to the professionalism and the commitment of the crew, and in spite a difficult time, we had a very strong marine operation performance with a 90% availability rate and 94% production rate.

Now, moving to the operational results for the quarter and starting with GGR. I'm on slide 6. GGR posted solid multi-client revenue and subsurface imaging and reservoir performance. GGR recorded this quarter a 20% revenue increase quarter on quarter at $196 million, mainly due to the multi-client activity. Multi-client and subsurface imaging sales were nearly equally split.

Subsurface imaging and reservoir revenue were at $101 million, they were down 7% sequentially. And despite clients remaining cautious and despite some delays in project and less volume recorded, SIR remains quite resilient in current conditions with a good coverage for the rest of the year.

Multi-client revenue reached $96 million, up 74%, with a very good performance in prefunding and they were the highest in Latin America, Brazil and Mexico and Scandinavia. Prefunding sales were up 65% at $78 million, when after sales were up at $80 million. The cash prefunding rate was good for the quarter at 84%, which gives a 77% for the first half, above our 70% target.

We reached a 80% depreciation rate including accelerated depreciation. Looking at the net book value, we had a $990 million recorded at June end, up 3% [for] the Q1 2016. 12% are related to onshore survey and 88% to the offshore. GGR EBITDAs were at $120 million and GGR OPINC reached $29 million, showing a 15% margin.

Moving to the equipment and Sercel on Slide 7, equipment volumes are at historical low level. Equipment has been impacted by this very low volume level. It reached $44 million sale this quarter, down 39% quarter on quarter. The sales split was two-third land and one-third marine, which remain valid compared to the first quarter. Equipment sales were at the lowest quarterly level in more than 12 years, suffering from delayed projects and very low spare orders. Q2 has been more challenging than expected, both in land and marine, but it should mark the low point for the equipment activity and H2 is expected to be higher than H1.

Despite these very difficult conditions, Sercel maintained its market share this quarter. Manufacturing levels being very low, it is obviously pulling down margins, and such a low level of sales led us to negative operating margin this quarter at minus $18 million. However, despite this very low level of revenue, cash has been tightly monitored.

The transformation plan is on track and we have further reduced our breakeven point and OpEx while maintaining key R&D spending and manufacturing capacities to grasp the upturn when the demand comes back. We have also pursued our actions of diversification outside the oil

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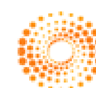

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and gas sector with some interesting contact for which our expertise and manufacturing capabilities would be -- could be well-suited. This will have however a mid-term impact on our operations.

Moving to the contractual data acquisition on Slide 8, we benefitted for this segment from lower marine weight due to higher fleet allocation to multi-client. Total revenue was down 34% quarter on quarter at $59 million. Sequentially, the lower revenue can be explained for half of it by the evolution of the fleet and half of it by the fact that only 34% of the fleet was dedicated to contractual data acquisition versus 75% last quarter on the other end.

As we already said, contractual marine pricing conditions reached a historical low level in Q4. However, they seem to have now stabilized, albeit at a very low level with no further degradation for the last two quarters. We do not see the pricing improving significantly before a few quarters as there is still, and despite some discipline in the market, enough of supply, which is kind of overhanging over the market condition, so reducing our exposure allows us to reduce the margin negative contribution.

Despite the conditions, marine has at this quarter continued strong performance, with excellent production rate at 94%. Between contract and multi-client, our coverage for the year is strong. Land & multi-physics total revenue were at $37 million, up 20%. Market activity is however low, affecting all contractors except perhaps for the Middle East and North Africa market. We have initiated the divestment of multi-physics, as you know, as it is a non-core asset for us. The full completion is expected to be done before yearend and is progressing well.

EBITDA of the segment were positive this quarter at $9 million and operating income reached breakeven. At EBIT level, the contractual acquisition segment contribution is minus $5 million negative and can be mainly explained this quarter by the negative contribution from the Seabed Geosolutions joint venture we have with Fugro.

Moving to the non-operated resources on slide 9, this report, as you will remember, reflects the non-active part of our fleet. We reiterate what we said last quarter, for the whole year 2016 EBITDA should stand within the range of minus $20 million to minus $25 million, including minus $50 million in H1, while the D&A, i.e., the non-cash charges should amount to between minus $60 million, minus $65 million, including minus $34 million in H1.

Our six owned cold-stacked vessels are in Dunkirk, they provide us with high flexibility to manage our contractual data marine acquisition and will allow us to quickly adapt to market needs.

With that, I now hand the floor to Stephane-Paul to comment in more details the financial figures.

Stephane-Paul Frydman - *CGG SA - CFO*

Thank you, Jean-Georges. I'm on slide 11. So looking at the P&L at the Group level for the first half of the year, the Group revenue amounted to $603 million, a year on year minus 42% decrease, which was mainly due, (A), to the change of Group parameter for the reduction of the operated fleet, six vessel in average in H1 2016 versus 11 in H1 2015 with acquisition down minus 57% year-on-year; (B), to the deterioration of market conditions and change of mix production with GGR down minus 27% year on year and weighting for 60% within Group revenues versus 48% in 2015; and (C), due to very low volumes with equipment contribution down minus 53% year on year.

The Group EBITDA looking at the whole Group is $131 million, driven down by negative contribution from Sercel and contractual data acquisition. To show the effective performance of the operated business parameter, it is worth to considering the Group EBIDTA excluding non-operated resources' negative contribution, which amounted to $146 million for the first six months.

At the OPINC level, the Group half year performance was minus $55 million for the operated parameter and minus $104 million when including the NOR segment. The contribution from investment and equity was null in H1, corresponding to a minus $5 million in Q2, which can be mainly explained by again negative contribution from the Seabed Geosolutions JV.

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We have to book this quarter $2 million complimentary charge related to our transformation plan, consistent with minus $7 million of H1. And all-in-all, taking into account notably all Company cost of debt at minus $85 million and income tax at minus $13 million, the Group net income amounted to minus $209 million for the first semester.

Moving then to the cash indicator on slide 12, you see that our $131 million Group EBIDTA combined with low tax paid and a significant positive change in working capital at $234 million led this semester to a very solid operational cash flow standing at plus $372 million, up 105% year-on-year.

Total CapEx at $203 million were down 10% year on year, with multi-client cash CapEx up 8% at $163 million, industrial CapEx down 58% at $22 million and R&D CapEx at a low $18 million.

The combination of the cash flow from operation, the global CapEx and $44 million paid this quarter led to a positive $97 million of free cash flow over H1 versus minus $83 million last year. Including the cash non-recurring charges related to our transformation plan that weighted for minus $47 million in Q2, the free cash flow was globally positive for the first half, standing at plus $8 million.

Moving to the slide 13, we can see that following our February capital increase, which generated $370 million in proceed, and our solid H1 cash performance, the June-end Group liquidity corresponding to the cash available and the loan credit facilities reached a good level at $745 million.

On such basis, the net debt amounted to $2,150 million by June-end, corresponding to a 3.9 times the leverage ratio, nearly unchanged compared to March-end at 3.8 times and below the 5.4 times bankers' cap.

The headroom is also remaining satisfactory when looking at the coverage ratio, meaning EBITDA or cash interest on the long-term -- last 12-months basis that amounted to 3.57 time by June-end versus the bank covenant floor at 3 times.

Concerning our debt maturity profile, and you will see that in slide 18 in appendix, there was no significant change this quarter, the average maturity of the senior debt out of the RCF standing at 4 years by end of June.

All in all, we can see that the strategy we implemented over the last quarters managing the Company by the cash is safeguarding the Company's liquidity for the critical times we are navigating in.

I hand the floor back now to Jean-Georges for the conclusion.

Jean-Georges Malcor - *CGG SA - CEO*

Thank you, Stephane-Paul. Going to slide 15 and looking our capabilities in geosciences, as you know, we want to refocus the Group on less capital intensive businesses and we want to continue to offer a large range of solutions to help our customers to face the current condition in taking full advantage of our integrated model.

Our multi-disciplinary expertise spans at all scales, beyond the seismic and well scale, from fully global modeling of earth systems to the nanometer scale investigation of rock samples. This wide reach into geosciences and the breadth of our offer give us unique advantages and differentiators to navigate for the difficult market environment we are in.

The ability to provide integrated solution is one of the answers to the new paradigm in the customer relationship which will emerge from current crisis. Multi-clients are the first example. The first market segment where we can combine our strategic basing and business knowledge in order to help exploration teams to identify the best opportunities and move rapidly to close the widening gap between supply and demand.

The success of our North Graben survey is a first and good example of this approach. We want to use the combination of CGG leading technology and equipment and processing our geological knowledge, our modeling methods and non-seismic methods to help our clients at each step of their decision taking.

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In exploration, we have to drill; in development, which number of wells; and in production, [fewer] and relevance of recovery wells, and this at all scales and for all geologies.

The integration as a geosciences company has been accelerated by the timely execution of our transformation plan. It will have to be supported in parallel with a new and revisited customer relationship based on mutual trust and mutual dependence.

Now, moving to the slide of conclusion on slide 16, in summary, we have been operating this quarter in market conditions which remain challenging and characterized by low volumes and pricing. This uncertainty and weak conditions will probably prevail for the rest of the year. However, the current levels are unsustainable and are leading to massive industry adaptation, loss of capability, loss of expertise in the sector, which will be very difficult to rebuild quickly to serve any market upturn, which may now come quicker than later.

As we said, the tone of the conversation we have our customers is changing and improving. The increasing evidence of a supply and demand mid-term tightening is rising as we saw for the first time in many months some small upwards revision in the oil price assumption from some commodity strategists.

We need to stay cautious. We may have the early signs that we have passed the weakest quarter in a year and may have reached or close to have reached the trough of the crisis.

With that and the typical seasonality of our business, including equipment and multi-client sales, we expect a better H2 even if uncertainty on activity will persist throughout the rest of the year. In this context, we remain determined and focused on what we can control.

And, first, we continue to be excellent in what we do and deliver a strong operational performance.

Second, we continue to successfully implement our transformation plan. It has the right size, it is on track and we should reap the full benefit of it in the second part of the year.

Third, we continue to adapt, and with a strict cost discipline, continue to cut massively in our cost base. A lot has already been achieved internally; more is coming to lower even more our breakeven points for all our businesses and we have still some cost centers particularly on our external cost base and for our non-operating assets which needs to be further pruned.

Fourth, we continue to control our investments. We decided to cut our 2016 full-year CapEx by a further $50 million. With the visibility we have now for our H2, the size of our fleet and the allocation of the fleet to multi-client surveys, we can with confidence target industrial CapEx to be in a range of $75 million to $100 million and the multi-client cash CapEx to be in a range of $300 million to $350 million, of course with the prefunding rate of above 70%.

And finally, we continue to maintain our strong focus on cash management, and as Stephane-Paul said, manage the business of cash in the current environment. We therefore confirm that we are aiming to reach a net debt of less than $2.4 billion by the end of 2016.

Thank you very much and we are now ready to answer your questions.

Catherine Leveau - *CGG SA - SVP, Investor Relations*

Operator, we are ready to take questions.

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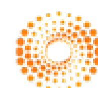

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Rahul Bhat, JP Morgan.

Rahul Bhat - *JP Morgan - Analyst*

Can I ask a couple of questions and start off with Sercel? On the -- second half performance you expect it to be stronger and I think in previous calls you had said that's going to be from China and Russia. Can you conform if that is still your expectations and that there are no megacrew awards expected in the second half of the year?

Jean-Georges Malcor - *CGG SA - CEO*

That's correct. Yes, we don't expect any megacrews this year. There is no correspondence on the timing on that in the Middle East. So on the Sercel side, we have both seasonality and market reopening in Russia and China.

Rahul Bhat - *JP Morgan - Analyst*

Okay. And you also --

Jean-Georges Malcor - *CGG SA - CEO*

And, sorry, and there is another one as well which is important in Algeria, which is reopening.

Rahul Bhat - *JP Morgan - Analyst*

Algeria. Okay.

Jean-Georges Malcor - *CGG SA - CEO*

Yes.

Rahul Bhat - *JP Morgan - Analyst*

And earlier you were alluding to some non oil and gas manufacturing for Sercel. Could you elaborate a bit on that? Is it something you think will come in 2017 or 2018 or -- and what kind of opportunity that you're talking about?

Jean-Georges Malcor - *CGG SA - CEO*

Yes, it's not a short-term. Clearly -- I mean it will be great if it could lead to some short-term revenue, but it will be very minor. Here, it's more vision, but will take one year, two years in order to apply the technology and the know-how in other domain than oil and gas. But it's not going to translate into massive revenue on the short-term.

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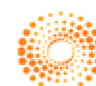

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Rahul Bhat - *JP Morgan - Analyst*

Okay, understood. And on GGR and particularly on late sales, so if I look at first half late sales, it was $8 million in last quarter and $18 million this quarter, which is -- this is quite weak compared to historical levels. Can you explain a bit on that? And I was expecting you to benefit a bit from the Shell, BG Group merger in terms of some transfer fees. So did that come through or is that something that you did not benefit from?

Jean-Georges Malcor - *CGG SA - CEO*

No, we did have some benefit from this transfer fee, but obviously less than some of our competitors because we were less exposed to the areas and particularly the North Sea, yes.

Rahul Bhat - *JP Morgan - Analyst*

Understood. And anything on late sales in particular and why it's been so weak in the first half and how do you expect it to trend in the second half?

Jean-Georges Malcor - *CGG SA - CEO*

Yes, we expect the after-sales to be stronger in the second half, okay. We have had a low level of after-sales particularly in Q1. Q2 was recovering a bit. But obviously we are expecting Q3, Q4 to be much stronger with the traditional seasonality, but also linked to the various lease round and the areas of the lease rounds. Typically, the lease round in Gulf of Mexico for August was marginally interesting for us because the data was -- we had not a lot of data on these transfers, and second, the data on Trois have been sold already last year.

Rahul Bhat - *JP Morgan - Analyst*

Understood. So is there any other lease round that you are looking at with anticipation, is it the Mexico one in December?

Jean-Georges Malcor - *CGG SA - CEO*

Yes, of course the Mexican one and also the Gulf of Mexico in March 2017 --

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Stephane-Paul Frydman - *CGG SA - CFO*

For the Central Gulf.

Jean-Georges Malcor - *CGG SA - CEO*

-- for the Central Gulf, where we have good data.

Rahul Bhat - *JP Morgan - Analyst*

Understood. And last question if I may, on the strong prefunding performance this quarter, is this due to converted contracts in, say, Brazil and some areas or because -- otherwise the impression -- my impression was that it's very tough to time prefunding from companies.

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Jean-Georges Malcor - *CGG SA - CEO*

No, there is no converted, so-called converted contract. And I'm glad you're asking the question. No, they are genuine prefunding. The fact is that we have been very selective, which is easier to do when you have a small fleet of course, and out of the various pipelines and opportunities that we have to conduct multi-client, we are trying to select the one which attract the highest level of prefunding.

So far we are traveling quite well. Since -- for H1 we had 77%, 84% in Q2 and we don't expect this rate to be affected in H2. So we confirm our target for the year of being above 70%.

Rahul Bhat - *JP Morgan - Analyst*

Understood. Perfect, Jean-Georges. Thank you.

Jean-Georges Malcor - *CGG SA - CEO*

Thank you, Rahul.

Operator

John Olaisen, ABG.

John Olaisen - *ABG - Analyst*

Question to slide number 9, you having all this -- the owned vessel stacked. I just wonder what will it take for those boats to come back because you say -- you are right in that if you could quickly adapt to market needs. How much will their rates have to improve before those vessels come back, and two, are those vessels fully equipped with streamers, et cetera, so they are ready to go out on a rather short notice?

Jean-Georges Malcor - *CGG SA - CEO*

Well, first of all, before the thinking about vessel coming back, we need to see a solid and sustained recovery on the market. Today we are still very borderline in terms of supply-demand. The market is probably still overcrowded because we don't see the rates going up, even though we see the rate stabilizing. If we leave aside some -- from time to time some wrong behaviors on certain contracts, globally the rates are stabilizing for -- they have been stabilizing for the last two quarters.

Now, I'll come back to your question, if the rates were hiking massively up -- first of all, I'll restate our position to say that our priorities are multi-client business. But if we had to bring back vessel, it's not very expensive because the vessels have been -- they are maintaining in good shape. We will need -- they have been derigged, so we will need to equip them with new equipment or equipment from the rotating spares. And of course in terms of crew, the way we are managing our crewing, we would be able to very rapidly mobilize crew for both maritime and seismic crew for the vessels.

John Olaisen - *ABG - Analyst*

So the vessels do not have streamers on them. They have been -- all the streamers have been taken off?

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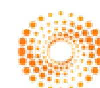

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Stephane-Paul Frydman - *CGG SA - CFO*

No, we have a pool of streamers of hydro streamers, so we don't -- for the first two vessel to be back we have not specific CapEx needs related -- looking at the equipment at sea, so talking about fleet equipment and refurbishment of the fleet's equipment on board. But for the equipment at sea, we have the ability to equip well on to the shore.

John Olaisen - *ABG - Analyst*

At least two vessels, yes. And is it possible to be more specific, how much will their rates have to increase before you could consider taking those two boats back?

Jean-Georges Malcor - *CGG SA - CEO*

No, we have not looked at actually that way. As I said, for the time being we are really concentrating on our multi-client. I remind you that the profile of the Company is to keep a mix of activity dominated by GGR for more than 60%, equipment, 25% and we don't want the data acquisition to be more than 15%.

John Olaisen - *ABG - Analyst*

And then is it possible to give some indication where you are planning to do multi-client investments in the second half please?

Jean-Georges Malcor - *CGG SA - CEO*

I don't want to give you all my secret, John. Now, this is quite confidential. But we have -- our policy in multi-client is quite clear. We are clearly playing in more mature basins rather than, let's say, very, very risky exploration ones. So from that you can probably guess where we are going to shoot multi-client.

John Olaisen - *ABG - Analyst*

Yes, you haven't been shooting in the US Gulf Mexico for a while and it is one of your core areas. Is that true --

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Jean-Georges Malcor - *CGG SA - CEO*

No, in the Gulf of Mexico we invested a lot in the past and now it's time to reap the benefit before reinvesting in Gulf of Mexico.

John Olaisen - *ABG - Analyst*

My final question is, given the virtual prefunding you had, would it be possible to -- would it be likely that when you bring back more vessels if that would even happen -- it's more likely that you are going to increase multi-client investments rather than to do a contract?

Jean-Georges Malcor - *CGG SA - CEO*

This is an interesting question. For us -- I mean if the market comes back strongly, clearly we will be looking at doing more multi-client because this is the base of our model.

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Stephane-Paul Frydman - *CGG SA - CFO*

But again we are working on kind of compromise because clearly we are hunting for high prefunding rate and the market is not deep enough as we speak for additional return on that market segment.

Jean-Georges Malcor - *CGG SA - CEO*

The way we size the -- the way we size our operation, John, was -- you may remember when we announced the plan and how we came to the five vessels. That was our ability to provide a reasonable level of prefunding rates, 70% plus, on the fleet and we thought that in order to maintain our level of multi-client and attract this 70% prefunding rate the three vessels per year average was a good number. So if the market tomorrow because it's recovery can sustain four vessels in multi-client with the same level of prefunding rate, it would be an opportunity for us.

John Olaisen - *ABG - Analyst*

Okay, thank you very much for answering my questions. Have a nice summer. Bye-bye.

Operator

Christopher Mollerlokken, SB1.

Christopher Mollerlokken - *SB1 - Analyst*

Regarding the transformation plan, could you elaborate how much you have paid out now in the first half and how much you expect to pay out in the second half?

Jean-Georges Malcor - *CGG SA - CEO*

Yes, sure. Typically on the first half we paid in terms of non-recurring item around $88 million for the plan for H1 and we plan to pay roughly $110 in the second part of the year for the second half.

Christopher Mollerlokken - *SB1 - Analyst*

Okay. You also mentioned at the start of the call that EBITDA in the second quarter was positively impacted by some tax credit. Could you say how much that contributed?

Jean-Georges Malcor - *CGG SA - CEO*

Yes, I think you can find it in the [SEC 10] -- it's around $20 million.

Christopher Mollerlokken - *SB1 - Analyst*

Okay. And did you --

Stephane-Paul Frydman - *CGG SA - CFO*

And that tax credit (inaudible) related to R&D.

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Jean-Georges Malcor - *CGG SA - CEO*

It's R&D, yes.

Stephane-Paul Frydman - *CGG SA - CFO*

It's R&D tax credit, yes.

Christopher Mollerlokken - *SB1 - Analyst*

And should we assume further tax credits being booked in the second half or was this one-off?

Jean-Georges Malcor - *CGG SA - CEO*

No, no, for the year that will probably be it, okay. In the years to come, there may be some -- more to come because it's a result -- the tax credit is a result of a continuous policy that we have in R&D investment around the world, particularly in the US, and it's the effort which are booked every quarter in terms of R&D spending. And every once or twice a year you have to come back with the administration, discuss with the administration and recognize the tax credit. And it is becoming more interesting of course when the activity is low and when you are in a negative territory.

Stephane-Paul Frydman - *CGG SA - CFO*

Towards the long (inaudible), Christopher, and that's a matter of documentation and discussing about the cost basis, like that with the tax administration.

Christopher Mollerlokken - *SB1 - Analyst*

And my final question, you also mentioned that you have further reduced the breakeven point for the equipment business.

Jean-Georges Malcor - *CGG SA - CEO*

Yes.

Christopher Mollerlokken - *SB1 - Analyst*

And could you say roughly when you expect that business to breakeven now?

Jean-Georges Malcor - *CGG SA - CEO*

Yes, I can give you an indication. We were -- you remember we're at the beginning of the year below 400 and now we're south of 375.

Christopher Mollerlokken - *SB1 - Analyst*

Okay, thank you.

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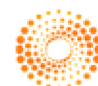

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Operator

(Operator Instructions) Eli Benson, Nomura.

Eli Benson - *Nomura - Analyst*

Just a quick question. Just -- so the total amount that you're going to be spending on this restructuring, is this still $300 million? I know a question was asked on how much you spent the first half and then how much you're going to spend in the second half, but the total amount is still $300 million over your restructuring plan?

Jean-Georges Malcor - *CGG SA - CEO*

This is correct. And I'll remind you the split, $200 million this year roughly, so $88 million first quarter, $110 million next quarter -- sorry, first half, $110 million next half roughly. And then we have a $50 million roughly in 2017 and another $50 million after.

Eli Benson - *Nomura - Analyst*

Got it. And when you spend this $300 million to restructure your company, what type of savings are you looking for or how does an analyst or an investor look at the savings that CGG will reap when you actually spend this money?

Jean-Georges Malcor - *CGG SA - CEO*

Yes, well, we don't give a lot of guidance on that because it's quite sensitive on our cost base, on the market. But the way you can look at it is if you look at the cash-out -- I mean the cash spending, for example, H1 last year and if you can compare it to the cash spending H1 this year, you see there's a huge swing, okay, in terms of cash and that will give you a rather good indication of the type of saving we are targeting for our transformation plan.

Eli Benson - *Nomura - Analyst*

Got it. So that entire amount that tells us what you're kind of spending on an annualized basis -- like the annual savings is that -- that's kind of what you're targeting. Okay, that's clear.

Jean-Georges Malcor - *CGG SA - CEO*

Yes.

Eli Benson - *Nomura - Analyst*

And then another question which I understand it's hard to answer, but I would like to ask it, what oil price do you view as sustainable for the type of business that you do? I mean I've heard numbers all over the place. I've heard a number of $45. I've heard $50. I've heard $60. But what level do you think -- I mean a stable oil price. I don't mean like oil flips up to 55 bucks a barrel and then goes back down to $40. But what is the level where you feel comfortable?

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Jean-Georges Malcor - *CGG SA - CEO*

It's a difficult question, but I'll try to answer it with our belief, our strong beliefs inside the Company, and my answer will be in two-folds. The first one, stability is probably the first criteria which will be important for our customer to regain confidence and start spending again. So if you -- of course not stability at $25, but let's say that first if we take the $50 mark and if it was -- if this mark was going to be stable for a few quarters, we have confidence that there won't be any huge swing. But we already participate a lot to the change in mentality, the change in discussion, the change in mind.

Second, come to your question, the absolute value, we think that above $60 will unlock quite a lot of capacity to our customers to reconsider again the offshore, because the cost base has been going down a lot globally and so $60 it's an important mark. So to -- if I summarize your question, we would be comfortable with an oil price stable above $60.

Eli Benson - *Nomura - Analyst*

Okay, great. Thank you.

Operator

Jessica Alderson, Morgan Stanley.

Jessica Alderson - *Morgan Stanley - Analyst*

I just had a couple of questions. The first one was about your guidance for in 2016 net debt to be below EUR2.4 billion. Is that organic or is that assuming I mean smaller assets disposals?

And the second question was, could you please talk a little bit about the performance of your Seabed Geosolutions JV and what kind of EBIT margins you saw in the first half? Thank you.

Jean-Georges Malcor - *CGG SA - CEO*

Okay. I will let Stephane-Paul answer the second point. And the first one for the debt, EUR2.4 billion, and this is including of all our actions we're taking. It's a global summary of our cash performance and business performance.

And on EBIT?

Stephane-Paul Frydman - *CGG SA - CFO*

And just on the H2 keeping in mind that we're in the process of sale of the multi-physics business that it's supposed to be completed by end of Q3 or early Q4 and that's already computed in --

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Jean-Georges Malcor - *CGG SA - CEO*

In the numbers.

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Stephane-Paul Frydman - *CGG SA - CFO*

On SBGS, we've just mentioned that -- well, we have just to give a flavor on and we will let Fugro, the majority owner, comment the business results of SBGS. What we said is we book as an income from [this] year a negative contribution in Q2. It was mostly due to the reduced backlog of SBGS for the OBC business and the ocean bottom cable surveys so that let them to impair some tangible assets and that's as a consequence why we took a loss here. But for the business comment, please refer to what will be said by Fugro in a week. They are communicating on August 4th.

Jessica Alderson - *Morgan Stanley - Analyst*

Yes. Okay, we will wait till next week then. Thank you.

Operator

Rahul Bhat, JP Morgan.

Rahul Bhat - *JP Morgan - Analyst*

Sorry for the follow-up, but since there aren't that many questions I thought I might just try my luck. This is actually for Stephen-Paul probably. On the covenants I think even if you assume your net debt falls or you achieve your guidance of below $2.4 billion and say you get to $2.3 billion. To reach a 5 times net debt-to-EBITDA number, your EBITDA would have to be around $450 million and your first half EBITDA was only around $130 million. So is there any scope to renegotiate that covenant number or do you expect a bumper Q4 as usual?

Stephane-Paul Frydman - *CGG SA - CFO*

Yes, Rahul, on that matter just a few comment on the story of the covenant and what you said about EBITDA. So first, we remind that EBITDA is strongly correlated to the level of multi-client we achieved, that Q4 is always important, and well, like we see over the last two years. And we won't comment anymore about what could be our yearend earning point as we are not providing any guidance in terms of EBITDA.

About the covenant itself, the covenant matter. I won't -- neither I'm trying to predicting too much around future discussion we could have with our lending banks. I just want to remind you that we are in permanent dialogue with our lending banks, meeting them each quarter along -- and information that they are taking. We have -- and we are benefiting from very supportive lending [pools] as experienced or the miscellaneous trade agreement amendments.

And we went through those last year unknowns and we think slightly that regain for these discussions with these banks will keep on being benefiting from a supportive lending banks also going forward.

Last, we proved that for the past year we're able to manage the Company for cash and also will continue to do so.

Rahul Bhat - *JP Morgan - Analyst*

All right. Perfect, Stephane-Paul. Thank you.

Operator

(Operator Instructions).

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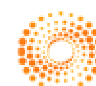

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Jean-Georges Malcor - *CGG SA - CEO*

Okay, no more question?

Operator

There's no further questions.

Jean-Georges Malcor - *CGG SA - CEO*

Okay, very good. So I will conclude the call. Thank you very much for attending the call this morning. If some of you are taking a bit of a break, wish you a very good break and let's stay in touch, back in September. Bye-bye for now.

Stephane-Paul Frydman - *CGG SA - CFO*

Bye-Bye.

Operator

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

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