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CGG.PA - Half Year 2017 CGG SA Earnings Call

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CORPORATE PARTICIPANTS

Catherine Leveau *CGG - SVP of IR*

Jean-Georges Malcor *CGG - CEO and Director*

Stephane-Paul Frydman *CGG - CFO and Senior Executive Vice-President of Finance & Strategy*

CONFERENCE CALL PARTICIPANTS

Jean-Francois Granjon

Julien Raffelsbauer

Synnøve Gjønnes *Pareto Securities, Research Division - Analyst*

PRESENTATION

Operator

Good day, and welcome to the Second Quarter 2017 Conference Call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Ms. Catherine Leveau. Please go ahead, madam.

Catherine Leveau - *CGG - SVP of IR*

Good morning, and welcome to this presentation of CGG's second quarter 2017 results. My name is Catherine Leveau, I'm Head of Investor Relations.

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, strategies 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, Group CFO, will provide an overview of the second quarter and provide also some comments on our outlook. Following the overview of the quarter, we will be pleased to take your questions.

Now I would turn over the call to Jean-Georges.

Jean-Georges Malcor - *CGG - CEO and Director*

Thank you, Catherine. Ladies and gentlemen, thank you for participating in this conference call this morning.

Our presentation will cover 2 important topics: our Q2 2017 operational and financial results; and our last update on the swift delivery of our financial restructuring plan.

So let's move to Slide 4, and let me summarize briefly our Q2 achievements. Our Q2 can be characterized by an EBITDA driven by solid multi-client sales and Subsurface Imaging performance. Our Group revenue were up 20% at $350 million compared to 2016. GGR revenue was up 12%, with a solid multi-client performance boosted by future licensing rounds in Mexico and Brazil. Sercel revenue were still very low, even if they are slightly improving from an extremely low level last year. And Contractual Data Acquisition revenue was up this quarter due to good marine operational performance in market conditions, which remains very challenging.

Our EBITDA was up 16% year-on-year at $120 million, which is a good achievement in current market environment. As you might remember that in 2016, as a result of our long-term research and development investment policy, our EBITDA in Q2 2016 included some booking of R&D tax credit, which is not the case this quarter.

Operating income was almost at breakeven. We were a negative minus $3 million. And GGR was the only positive contributor to the operating income this quarter. In the difficult circumstances we're in, I'm particularly proud of our strong operational delivery. The teams are doing a fantastic job. And this set of results translate very well the absence of commercial disruption to our activities. Safeguarding our business continue and remains our first priority.

So let's move to Slide 5, and let's turn to our restructuring plan. First of all, in parallel with the conduct of our operations, we've achieved, this quarter, major milestones in our financial restructuring plan, which is being implemented as fast as possible. First, the Nordic debt restructuring was formally completed on April 20, allowing us to find a solution with our Norwegian partner for our seismic vessel fleet. Second, we made significant progress in the negotiation of our company financial restructuring plan with the outcome of a first round discussion released on May 12, supported by some creditors. And more importantly, with the agreement in principle itself, which was reached on June 2, 3 weeks later with the majority of our secured and unsecured creditors and DNCA.

On the basis of this agreement, the French Sauvegarde proceedings on CGG S.A. and the prearranged US Chapter 11 for 14 significant subsidiaries were launched on June 14. It was really important for us to enter into these formal legal proceedings, with an agreement with the majority of our creditors to be able to file a prearranged US Chapter 11 process as it provides a clear time frame and action task for the restructuring. We also launched, on June 27th, the new $375 million 2024 high-yield bond private placement subscription, which was completed on July 7th, with more than 86% take-up. I remind you that this private placement agreement was, in any case, fully backstopped by our lenders.

During this process, we also signed lock-up agreements with a very large majority of our lenders, 78% plus of the secured lender and 74% plus of the all-in secured lenders. Hence, de-risking the formal creditors' vote, which is taking place as we speak in France this morning and by mid-October in the U.S.

Now moving to Slide 7. In Q2, GGR revenue was almost 12% up year-on-year at $221 million with solid multi-client sales boosted by the licensing rounds. The multi-client revenue was up 39% at $131 million (sic) [$133 million] and multi-client sales were good in Gulf of Mexico, U.S. side and Mexican side, and Brazil. We had a good set of data over key sedimentary basins in Mexico at Encontrado, near the U.S. border, and in Brazil in many places where we announced lease rounds will take place. We announced, 2 days ago, the extension of the Santos VII broadband 3D multiclient survey. Having the fast-track data available soon after the Santos acquisition and working closely with the clients increased our confidence to extend our survey. We have already a very large 3D multi-client library in the Santos Basin. And we want to offer to the industry an ultramodern exploration dataset to support the next pre-salt licensing round.

Our prefunding sales were at $73 million and our after-sales stood at $59 million. We reached a very good cash prefunding rate of 122%. 48% of our fleet was dedicated to multi-client program during this quarter. On this matter and going forward, 35% of our fleet in Q3 will be allocated to multi-client surveys and 65% will be allocated to multiclient surveys in Q4.

Our Q2 Subsurface Imaging & Reservoir revenue was down 13% year-on-year at $88 million, in line with the market negative trend and low client spending. However, Subsurface Imaging continues to harvest commercial success, as demonstrated by long term dedicated centers award in Oman and Thailand.

All-in-all, GGR reached an EBITDA of $139 million and a 17% operational profitability, with an operating income at $37 million. The margin increase versus last year is mainly explained by the higher revenue, a better mix of after-sales for multi-client and continuous effort on the cost side. The data library amortization rate this quarter was at 67% compared to 84% in 2016, as we sold some older vintages. The Net Book Value of the library reached $833 million.

Moving to Slide 8. The total revenue this quarter were at $53 million, up 20% year-on-year for a particular low point last year. But for this equipment business, we continue to be impacted by persistent low volumes. The marine sales represented 51% of the total sales and this $27 million low volume included also some sales of second-hand equipment. The land sales represented 49% of total sales, with the strengthening of the gauges business, as already seen last quarter, and some volumes sold in Algeria and India. We also deployed this quarter of Sentinel MS on CGG Coral. You may remember CGG Coral was cold-stacked up to the spring time. She is now back in operations and was very successful shooting a multi-client survey in Ireland.

With these low volumes, the EBITDA was negative at minus $6 million, and the operating income was negative at minus $13 million due to the volume of course, but also an unfavorable product mix this quarter.

Now moving onto slide 9 on the Contractual Data Acquisition. Contractual Data Acquisition segment remains under pricing pressure both in marine and land. However, Q2 total Contractual Data Acquisition revenue was up 39% at $82 million. Marine revenue was $61 million, up 173%, mostly explained by the execution of 2 large contracts which went very well, with impressive fleet operational performance. Our first job in this challenging environment is, once again, to conduct our operations with maximum professionalism, and that's exactly what our marine teams did this quarter by achieving an outstanding 98% production rate for the second quarter in a row. The difference comes, this quarter, also from the fact that we've also achieved 100% availability rate, which is quite rare. We've low transit time and low mobilization time compared to last quarter. You may remember that Q1 was impacted by mobilization on 2 large surveys and a vessel swap. 52% of our vessels were dedicated to the contractual marine market this quarter versus 71% in Q1.

Looking ahead, the winter season will be impacted by increased seasonal valuations. And in terms of fleet coverage, we are booked at 95% in Q3 and 60% plus already covered in Q4, which seems to be a low quarter for the whole industry, with strong competitive bidding activity.

On the Land & Multi-Physics side, total revenue at $21 million, down 43% year-on-year, suffering from low market activity and very slow client decision process, even though we have had some recent success.

All in all, operating income contribution was negative at minus $13 million, benefitting from the strong fleet productivity and the positive impact of Global Seismic Shipping, the new JV that we have in our way with our partner Eidesvik on the cost structure side.

On Slide 10 now for the nonoperating resources. The nonoperating resources are mostly related, as you know, to the nonactive part of our fleet, the cold-stacked vessels and corresponding equipment. The decrease in the negative operating income this quarter at minus $5 million versus last quarter can be explained by the Global Seismic Shipping, GSS, the 50/50 JV with Eidesvik, which is accounted for in Equity from Investments. We have been transferring to GSS 3 active vessels and 4 cold-stacked vessels, and GSS will be chartering to CGG up to 5 vessels through the umbrella capacity agreements, which were signed with the JV.

Now after the -- this quick review of our operational segment, I now hand the floor to Stephane-Paul Frydman to comment, in more details, the financial figures.

Stephane-Paul Frydman - *CGG - CFO and Senior Executive Vice-President of Finance & Strategy*

Thank you, Jean-Georges. I'm on Slide 12, and looking at the P&L at the group level.

So, overall, the Q2 group revenue amounted to $350 million, up 30% compared to 2016, with the business mix partly in line with our rebalancing target as GGR waits for 63% of the revenue this quarter, similar level as last quarter.

EBITDA was up 16% at $120 million, and operating income much better at minus $3 million, before nonrecurring charges. Total nonrecurring charges were $95 million this quarter, driven notably by $42 million charge related to the financial restructuring cost and $61 million noncash charge related to do the Global Seismic Shipping set up. On that matter, all in all and including the portions booked at cost of debt and other financial items level, the full P&L charge related to the Global Seismic Shipping set up completed last April 20 amount to circa $70 million and correspond roughly to the present value of the (inaudible) day rate over a 5-year period from the [45k area, down to 25k per day area]. It has to be noted that such GGS negotiation led then to bargain circa $70 million future cash drain for the company against a partial vessel monetization for the sale of GSS paper to Eidesvik.

On such basis and combining current and noncurrent elements, the group net income amounted to minus $170 million for the second quarter, leading to accounting equity on our balance sheet amounting to [$740 million].

Moving on Slide 13 and focusing on the cash indicators. Similarly to previous quarter, we ran the company this quarter in order to preserve cash. Group EBITDA amounted to $120 million, driven by the robust multi-client sales, as mentioned by Jean-Georges and despite the still weak environment.

Taking into account a low tax burden cash-wise and, as already flagged in Q1, a negative change in working capital at minus $57 million this quarter, the operational cash flow amounted to $52 million. Total CapEx at $78 million was down 32%, and were tightly monitored with multi-client cash CapEx at $60 million, down 35% year-on-year and 120% prefunded; industrial CapEx at $10 million and R&D CapEx at $8 million.

All in all, on such basis, the cash consumption was negative this quarter, and the negative current free cash flow stood at minus $24 million before nonrecurring items. The cash outs related to the Transformation Plan amounted to -- Transformation Plan and restructuring process amounted to minus $54 million in Q2, of which $36 million are made of financial restructuring cost and (inaudible) are mostly of lower fees to prepare the opening of the French Safeguard entry into Chapter 11.

On Slide 14, and looking at the balance sheet items and the characteristics of our present financial situation. In the context of a weakening U.S. dollar at $1.14 by June end versus $1.7 by March end, our net debt amounted to $2.4 billion by end of H1 versus the previous $2.3 billion area we were in. This is the consequence of the change of FX rate, it impacted the $67 million on our euro-denominated debt component; a consequence of the Q2 negative cash flow for $78 million; consequence of the tail of the GSS transaction, which is mostly the consideration of $15 million of accounting lease; and also they maintain competition in the debt of the unpaid unsecured coupon for $45 million, which corresponds to the liquidity savings we made by opening our legal proceeding on June 14. On such basis, the group liquidity amounted to $315 million by June end, in line with expectation and significantly down from the $390 million of March end.

So looking at the trend of the liquidity, I'm on Slide 15. You see when we focus on the liquidity trend moving forward, we see, on that graph, that we're on a significant learning mode despite the savings attached to the legal proceeding and corresponding mainly to the unsecured -- the nonpayment of the unsecured payment which is the green portion on the graph. So you see that we are planning to go down to the $200 million area at the Q4 2017, Q1 2018 horizon. This is clearly a tight level. If you remind that part of such liquidity is made of, say, $80 million or $90 million of [crop] cash, and an even more tight situation under the French safeguard or US Chapter 11 regime. That created customer limitation for the cash circulation between our miscellaneous business entities. So clearly, and as highlighted by Jean-Georges, we can manage the situation easily in the frame of the execution timetable of our restructuring plan based on the favorable vote of -- at the next October shareholders' meeting. But we have to be conscious that whether that any delay, even by a couple of months in the implementation of restructuring could lead us, in that situation, to face a liquidity crisis.

So I will now go for the financial restructuring process by itself.

So let me -- I'm on Slide 17, let me remind you rapidly what -- where are the main priority for us. First, clearly, hunting for protecting the corporate interest of the company and the full value of its businesses. Second, the priority was also clearly to preserve the group integrity. We are running global businesses, we are strong interdependent within the geographies, and also strong interdependent between the business lines, meaning between equipment business, data acquisition businesses and [assignments of] our business.

Third point, we clearly wanted to provide a long-term stability framework for the company. This agreement was also to provide the company with sufficient new M&A. As an insurance from any case, there would be any further delay in the recovery in certain market, but also -- the proposal was also to firm the company goals once the market will bounce back. And last, the point was also to respect all our stakeholder interest, who have been working on the agreement we will reach and we enter to -- in a legal proceeding on -- having in mind that we have also to manage the different kind of stakeholders and we were willing to find the best balanced solution in compliance, of course, with the natural subordination rank of all the stakeholders. So we see that we -- the plan we are putting on the table allow us to -- should allow us to meet all the objectives we are looking at.

On Slide 18. First, you might remember that our preliminary restructuring step was to address, in Q1, the legacy Maritime liabilities and the restructuring of our Nordic debt. First, the management of our legacy Maritime liabilities consistent in exchanging short-term cash liabilities against new paper issued and we issued $70 million of new senior notes, triggering very important liquidity savings over the 2017, 2018 period notably. Second, and I'm back here on the GSS deal, as explained before, by meeting our commercial goal which was to benefit from reduced (inaudible) rate for all the short-haul vessel in operations, we have to negotiate in parallel the risk scheduling every with our Nordic lender -- bankers, while they are -- they were supposed to become the GSS lenders non-recourse owners. Eventually, we were able to strike this first phase of financial restructuring [ahead] of the full restructuring of the group. And in that context, the Nordic banks accepted, A, the full externalization of their $180 million exposure to GSS; and B, the extent of their debt prepayment schedule to March 2027 from December 2019.

Moving on [Slide 20] and detailing the now the characteristic of the second phase of the financial restructuring. We're in for the negotiation initiated in March with that will be the secured and unsecured creditors. We are hunting for fruitful outcome; full equitization of $1.9 million of unsecured debt, leading to a substantial group deleveraging; extension of the maturity of the $800 million of secured debt likely to be in January 2023, if -- meaning 5 years after the targeted restructuring closing date; and three, significantly improve our liquidity position both to protect the company in the event of operational sensitivities but also to be able to finance its growth at the recovery time. So that's what we will reach for the issue of $500 million gross new money raised for the $375 million new 2024 high-yield bond and $125 million rights issue, having in mind that both are -- presently are being fully backstopped. And at the end of the process, such gross new money suppose to lead to $300 million net new money post $150 million secured debt repayment and the cash -- the payment of the cash placement fees.

The restructuring of such debt has to be done and that's what we put on the Slide 20, according to the seniority of the -- each component of the debt. So here again -- and we ordered the debt component here rank of seniority. Clearly the more senior debt was $800 million fully secured and guaranted debt, and then that means that debt was not a (inaudible) looking at the payment of its principle and that's why we negotiated mostly. Solely the maturity extend by 5 years to 2023. The $1.55 billion or $1.5 billion of unsecured debt with guarantee and the purpose here was to equitize that debt at EUR 3.12 per share, having in addition -- offering in addition to the bondholders the ability to convert their $86 million accrued interest in an additional new second lien bonds. And last, looking at the more junior unsecured debt, which is the convert to propel them accordingly an equitization at EUR 10.26 per share, with an upfront cash payment of $5 million of interest. So, as we said earlier, we were willing to find the best balanced solution but in compliance, of course, with natural subordination rank of all the stakeholders.

So the process we're reminded on Slide 21. We launched the Comprehensive Safeguard proceedings on both sides. First, on the French side, for the motor company. And second for all the guarantors, which are mainly 14 material subsidiaries, foreign subsidiaries, both U.S. and non-U.S. and just to figure out that this portion that was placed under the protection of the chapter -- U.S. Chapter 11 under the New York law. We are talking here about more than 40 direct and indirect subsidiaries that are also held by those 14 guarantors. And all in all, that's the material chunk of the group, because eventually these perimeter just to figure out the importance of what is under the authority of U.S. judge and in the process of the Chapter 11, represented when looking at the 2016 figures 56% of group revenues and 65% of the group EBITDA.

On Slide 22, just to figure out what is expected from the whole restructuring in the balance sheet. And before focusing on each dimension, it shows to us the global picture of the impact of such restructuring of the net debt of the company. So here, we figure out what are -- the impact of each cost restructuring steps starting from pro forma entry point, which was our debt by year-end 2016, and it was looking at the [total debt], meaning the financial debt net of the liquidity, $2.45 billion of net debt. That's the situation by year-end 2016. When looking at what would have been the trend without restructuring would have end the year 2017 at $2.85 billion, and thanks to the restructuring work. I think so we should, meaning, reduce the debt of year-end 2016 down to $0.45 billion, thanks to the de-consolidation of the Nordic debt, the equitization of the unsecured debt, the rights issue. So all in all, it should lead to a $450 million -- post restructuring $450 million of net debt. And encompassing the expected cash burn for 2017 and taking into account the savings in 2017 related to this restructuring, we are targeting here a lending point by year-end 2017 and assuming that the restructuring would happen at time to net debt of $0.7 billion. So corresponding that to figure out the impact of the restructuring, corresponding to a $2.1 billion of net debt reduction, thanks to this restructuring.

So when looking at each component, I'm on Slide 23, and you are used to it, that's a graph we show many times. That's just figuring out on the gross debt and focusing on the senior debt profile, the impact of the restructuring itself, which is refinancing all the secured debt into 2023 high-yield bonds first lien and the receipt of 2024 high-yield bonds second lien corresponding mostly to the new M&A and to the unpaid unsecured coupon for 2017. So globally, the senior debt will go down from $2.8 billion down to $1.1 billion, with significant maturity extend and eventually the remaining debt and trust weighted by 7% cash and 5% PIK, meaning that it would correspond to a burden of -- cost of debt cash burden of $85 million in 2018. Thanks to that and the liquidity improvement on [24] that means that it shouldn't bring the company in the area with a reasonable leverage, a leverage at below 2x starting 2018.

And last, when you look at the group liquidity, expected evolution over the 3 years to come and focusing on the respective impact of each restructuring component, you can see that we should benefit from $0.5 billion improvement from savings compared to the prior restructuring situation, [$300 million] provided by the Nordic restructuring component and $200 million corresponding to the reduced cost of debt, thanks to the massive equitization of our legacy debt; and another $0.5 billion corresponding to new financial resources, $300 million coming from the new money and $200 million from the flexibility of having the ability to raise additional secured debt in the future. So all in all, you see that we'll have $1 billion improvement in our liquidity situation for the company by year 2019, fully fulfilling the company's financial requirement up to end of 2019, by the time when the markets should have recovered.

Now I hand the floor back to Jean-Georges for more comments.

Jean-Georges Malcor - *CGG - CEO and Director*

Thank you, Stephane-Paul.

So let's move to Slide 27 and let's look at what are the next steps. On the July 13, we received lock-up agreements. I remind you that the lock-up agreements are agreements which are signed by our lenders. And through the lock-up agreement, they are committing to vote in favor of the plan. 74% of the combined senior notes and convertible bondholders, 75% of positive lock-up agreements were received, and 78% of the secured debt holder have also signed the lock-up agreements, indicating very high level of support for the financial restructuring plan. Their level of commitment being above the 67% threshold needed for the required qualified majorities that gives us some consult about the voting process and, of course, about the quality of the plan.

The vote of the lenders and bondholders committees for French Safeguard proceeding on CGG S.A. issued today, as we speak. And the vote from the committees on the prearranged U.S. Chapter 11 for the 14 significant subsidiaries will be completed by mid-October. After this vote, the next step will be the shareholder extraordinary general meeting, which is scheduled at the end of October or the latest, and it will be the next decision step for the CGG's future. A negative vote would cast, of course, substantial doubt upon the company's future and would open a period of uncertainty, which could be detrimental to our business and ultimately the value of our shareholders. Therefore, our priority and our effort in the next 2 months will be to secure a positive vote in the EGM.

Now moving on Slide 28. You can find on this slide our proposal to the shareholders. We want them to be able to participate to the recovery as we are a company operating in a cyclical market. And to do so, and even if the initial dilution of the shareholder just after the conversion is high, we are proposing a number of instruments to give them access to this recovery. Then we'll have access to 2 warrants and the preferential rights of subscription. The first warrant, the warrant 1 will be given to any existing shareholder at the time of the debt equitization. One warrant 1 is given for one existing share and it has a 4-year maturity. Free warrants allow the shareholder to subscribe to 4 new shares at EUR 3.12. Second, we're also giving warrant 2. Warrant 2 is linked to a participation of the rights issue. One warrant 2 is given for one new share subscribed for the rights issue, it has a 5-year maturity; and 3 warrants to allow the shareholder to subscribe 2 new shares at EUR 4.02.

With this proposal, there are therefore different steps. Pre new-money, the shareholders, after the equitization, will have a 4.5% share of the company, so it's a big dilution. But this range has to be already in conjunction with the size of the equitization. I remind you that we have a market cap which has just got [$85 billion] today and we are proposing to equitize nearly [$2 billion of that]. But post new money, and for the shareholder as we have been subscribing to the rights issue for their part, they have the opportunity to retain up to 22% of the group capital post exercise of warrant 1 and warrant 2. As part of this process, the fairness opinion will be, of course and as usual, provided by an independent expert as required by the AMF General Regulation. Cabinet Ledouble has been appointed by the board in June and they will issue its report before the EGM.

Now to conclude and looking forward on Slide 29. Despite the good quarter, our guidance for 2017 remains unchanged. As we said earlier in the year, we expect the market in 2017 to remain at a very similar level as in 2016 and our operating results to be in line with 2016. The multi-client cash CapEx are still expected to be at $250 million to $300 million range, with 70% cash prefunding rate, similar to last year target, and industrial CapEx are expected to be between $75 million and $100 million. The downward pressure on cash flow generation in 2017 compared to 2016 remains valid and was already flagged last quarter as we did not benefit this year from the positive working capital effect that we had early in 2016.

If H1 has been somewhat better than anticipated, we expect H2 to show a traditional seasonal pattern with a weaker Q3 and a stronger Q4. And with the mix, we should however be different than anticipated at beginning of the year. We expect multi-clients to be stronger, sales should be supported by good positioning and recent and modern data library in key sedimentary basins, and it should follow a typical Q3, Q4 pattern. While equipment should continue to suffer from low volumes in a context of uncertainty recovery horizon, and even if we are probably reaching global shortage of existing equipment, both in marine and land, and if we see some increase in our external sales level. Data acquisition activity should still be hampered by low exploration spending and low pricing with the usual unfavorable seasonality in H2 and particularly for the winter season.

All in all, we see persistent challenging market conditions prevailing and no real change for the time being in customer behavior and CapEx trends, with perhaps the exception of the onshore U.S. market and some key sedimentary basins.

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

Catherine Leveau - *CGG - SVP of IR*

Operator, we are ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will now take our first question from Julien Raffelsbauer of Contour.

Julien Raffelsbauer

Can you hear me?

Jean-Georges Malcor - *CGG - CEO and Director*

Yes.

Julien Raffelsbauer

Just have a question regarding the cash burn. But you're showing on Slide 22, so $275 million I see the cash burn. And just wanted to see if we could reconcile this with the guidance for EBITDA, which, similar to last year, is around $300 million. You're guiding as well [$400 million] of multi-client CapEx, $400 million of industrial CapEx. (inaudible) of the senior secured. So if I do the math, I've got more minus [$130 million], with the items I just explained. So could you just give us some guidance of what the difference is made of?

Stephane-Paul Frydman - *CGG - CFO and Senior Executive Vice-President of Finance & Strategy*

Yes. Sure, Julien. Yes, so it's sort of story of a change in working capital, in fact. We remind you on the -- totally on the [DID] that 2017 should be similar to 2016, not exactly the same way looking at the business mix and even also at the seasonality [in prior quarter]. With that being said, EBITDA-wise, we should be in the same kind of figure; tax-wise, we should be on the same kind of figure. We have a slight improvement on the CapEx side, but we have -- we provided the guidance on the range on the CapEx. And then -- and nevertheless, as you -- and also looking at the cost related to the Transformation Plan, but really talking about the former one, we may not show in the guidance we provided [in the press release], which was expenses -- for the tail of 2016, expenses of roughly $80 million -- $75 million, $80 million. So when you look at that and talking about $275 million, that means that net of the $75 million, we're talking about a cash burn out of the Transformation Plan of minus [$200 million] in 2017. And the delta versus 2016 mainly is essentially a change of the change in working capital contribution. In 2016, it was a plus [$220 million, $225 million]. In 2017, it should be minus -- [0 minus $25 million]. And the gap -- obviously, the gap is in the range of [$250 million between the 2 year]. So if you reconcile that exactly the same cash of pattern, but the fact that 2016 was heavily boosted by the positive cash back from the year before, the positive -- massive change of working capital. Whereas, this year, these factors won't play favorably.

Julien Raffelsbauer

Okay. And so you said on the cash restructuring expenses for this year, you said $80 million or $200 million?

Jean-Georges Malcor - *CGG - CEO and Director*

$80 million. On what was our expenses for the confirmation plan, it was last year $170 million. And we said -- it was supposed to be $200 million and $100 million. Eventually, we managed that better, and it was $170 million for 2016. And we said it should be $80 million, (inaudible) $250 million in 2017. So that's why we talk about $80 million.

Julien Raffelsbauer

And one question on the business to yourself and PGS as well. You had strong land sales (inaudible) earnings side that the market is turning, that the all company realizing that they not have spent enough. So it could be seen as this, but to both you and competition are not writing the outlook. So I wanted to see what's your view on those strong late sales?

Jean-Georges Malcor - *CGG - CEO and Director*

Yes, I can answer each one. It is true that the multi-client has been doing rather well since the beginning of the year. Q1 was already -- for a Q1 quarter, rather good; and Q2 has been probably better globally, not only for us but also for PGS and WesternGeco than anticipated originally. We've a good level of late sales, you're quite right with that. Now why aren't we more optimistic for the rest of the year, because these early signs, we have been burdened so many times that first we're probably cautious, I can conceive that. But more importantly, we have to -- the September-October timeframe is a key one, where we are going to sit down with our main customers, they are going to ready their budget for next year. And unless we have better visibility on the -- on our customer spending CapEx pattern, I think it's really premature to get overexcited on the recovery of the market. So, I would say, the outlook maybe a little bit more buoyant perhaps, but for sure, at the time being, far too early to be over optimistic. At least, things have been stabilizing and it's true that the spending pattern on multi-client has been rather strong since the beginning of the year, but we have to be careful not to conclude too quickly that we can be in a better spending mode. So let's wait for Q3, let's wait for the full outcome of the budgeting exercise from our customer.

Operator

And next question comes from Peter (inaudible).

Unidentified Analyst

Just a couple of quick clarifications. On the Santos Basin, you mentioned that there is more to comment. Is your intention to continue to use Oceanic Champion for this work? And how much more work do we expect (inaudible) a year or 2 years, or even longer than that?

Jean-Georges Malcor - *CGG - CEO and Director*

Yes. Okay. On that -- you're talking about Champion, about the Champion vessel?

Unidentified Analyst

Yes.

Jean-Georges Malcor - *CGG - CEO and Director*

For us, going forward is quite clear. We have now a clear setup. We have GSS, we've our joint company, JV, with our Eidesvik friends. And our commitment in the JV is to use 5 vessel a year, okay? And with a schedule which is quite clear of which vessel will be used depending on when they come to the end of their [chop], okay? And there will be a replace, as you know, with the vessels which are probably owned by CGG. And these already, for example the case with [Cohal], okay? So we are absolutely on this plan and we will not move from this plan.

Unidentified Analyst

Right. But my question is really more about like how much more upside or how much more work do we expect in Santos and Campos?

Jean-Georges Malcor - *CGG - CEO and Director*

Sorry. I misunderstood your question and I thought you were asking about the type of vessel we'll be using. No. Okay, on Brazil in the Campo Santos, definitively we have been building up in the last few years a significant position in terms of multi-client, in terms of not only new data but also reprocessing vintage data and proposing a global view of the basins. And on that, we are going to keep going. We are actually acquiring, as we speak, a new survey we started a few days ago. So that's happening right now. We have plans to reprocess more data to extend and to provide global coverage of these basins, particularly we believe it's a good investment, it's a good timing to do it, because of the oncoming lease rounds. The patterns which have been presented by the Brazilian authority in terms of lease rounds are extremely well, let's say -- I'll put it differently, our data today are covering extremely well the blocks which are going to be offered for the lease rounds. So that should bode well for our ability to sell these data.

Unidentified Analyst

Okay. And to follow-up on your comment before on the vessel, this new service that you were just talking, this is the one that is being covered by Oceanic Champion? Or that's another vessel?

Jean-Georges Malcor - *CGG - CEO and Director*

It is showed by the -- well, your question is, -- yes, absolutely.

Unidentified Analyst

And on the Seabed product that you have recently won, so congratulations on that development, but given the magnitude of this product in relation to similar projects have been attempted by not only CGG itself but also the industry. How do you think about the risk of executing this product given limited track record of the company in this space and the size of the (inaudible)?

Jean-Georges Malcor - *CGG - CEO and Director*

Yes. On -- two points on that, there is -- obviously the acquisition itself is done by SBGS. And I remind you that we have a minority, we are a minority shareholder of SBGS, so obviously I really encourage you to talk to the SBGS management on the execution of the program itself. But we have the technology and the knowhow to deliver on that one. What we've signed at CGG, 100% CGG, this is a processing of it. And on the processing side, we have absolutely no issue to process the data coming from those.

Unidentified Analyst

Okay. So basically you don't have a down [center] in case there any sort of like cost overruns or execution issues related to the acquisitions?

Stephane-Paul Frydman - *CGG - CFO and Senior Executive Vice-President of Finance & Strategy*

As a minority holder of the JV, so we are playing our role of shareholders, making sure that it is executed properly.

Jean-Georges Malcor - *CGG - CEO and Director*

But to tell you, we're not cash exposed to that.

Stephane-Paul Frydman - *CGG - CFO and Senior Executive Vice-President of Finance & Strategy*

No.

Operator

Our next question, ladies and gentlemen, comes from Synnove Gjonnes of Pareto Securities.

Synnøve Gjønnes - *Pareto Securities, Research Division - Analyst*

This is Synnove from Pareto. Just 2 questions for me, please. First of all, congratulations on the good quarter. And I just want to know, first of all, how should we think about the winter season? Obviously, you're going to do a lot of multi-client for Q4. Should we also expect regular pattern moving into Q1? And for 2018, will you primarily be allocating vessels towards multi-client activities? Or should we see a similar mix as we've done for 2016? And then my second question is actually on the business front, because it seems there's still some discrepancy there between consensus expectations and your outlook guidance. And given that you're still quite cautious, I would say, in your market outlook, could you please just help us understand where we're perhaps being a bit wrong?

Stephane-Paul Frydman - *CGG - CFO and Senior Executive Vice-President of Finance & Strategy*

Okay. So your first point, first of all, for 4Q and the end of the year, you know the -- I think that we're just slugging that the Q4 in marine for the time being seems to be a low quarter. I think all the other players are saying the same. On our side, I gave you the coverage and we're [95% probably] for Q3. We have 60% plus cover for Q4, and this 60% plus do not include all the multi-clients. So we are still, at the time being, in planning mode for some of the multi-client that we tend to -- we plan to acquire in Q4. So you're right to say our Q4 making will be with higher part of multi-client. We indicated that Q4 will be 65% plus in multi-client, okay? So we are not too worried for Q4 on our side, but I'm just slugging that Q4 is -- would be a difficult quarter globally for the industry. Now going forward in 2018, and we'll start in Q1, we are still along the line that we have indicated to the market that we are targeting, going forward, at least, I should say, around -- not at least around 2/3 of our fleet allocated to multi-client. So 2/3 of our fleet mean that at least 3 vessels will be allocated to multi-client going forward, and this is certainly the -- our planning mode for 2018. Now regarding your question on the business plan, you remember that when we disclosed the BP part of the financial restructuring, we gave ranges. Find for the time being, we are within these ranges. There is no particular correction to be made on that. We also indicated, at the time, that we have been planning for different type of scenarios. And what I can tell you is that even in being a bit more cautious today, although we have always indicated that 2017 will be similar to 2016 and we are not moving away from this particular guidance. We are, in all our BP exercise, within everything we have been saying to the market today. And the only thing we are raising in terms of difference compared to the beginning of the year is a different Q3, Q4 pattern for 2017 and a difference in the way 2017 would be made. To keep it very, very crisp and sharp, we're expecting a bit more multi-clients and a bit less of sale in 2017.

Synnøve Gjønnes - *Pareto Securities, Research Division - Analyst*

That's very clear. And then just a quick follow-up. Your competitors seem to tend that 2018 contract rates should pick up. Is that also the same belief that you have?

Jean-Georges Malcor - *CGG - CEO and Director*

Well, I think it's a little bit too early again. We hope so, certainly. But, for the time being, the market remains very competitive. It has stabilized. So we have -- the downward trends have been stopped for a few quarters now. So that's where the good sign. And -- but I will be cautious before saying that the price will pick up in early 2018. I think we need to see the winter season and we need to see what the level of bidding activity we'll have for Q2 next year.

Synnøve Gjønnes - *Pareto Securities, Research Division - Analyst*

Okay. But do you think Q2 next year will be higher than Q2 this year for the industry as an average?

Jean-Georges Malcor - *CGG - CEO and Director*

Apparently it's far too early, because we are just starting receiving some call for tender and we need to see what would be the number of vessels, the volumes of tender coming in. It is through that this year, we have -- there were a couple of example or there was some squeeze in terms of capacity, which hasn't been the case for a long time. So this should be a little bit better in terms of environment, but far-far too early to give you indication on that.

Operator

(Operator Instructions) Our next question comes from Jean-Francois Granjon of Oddo BHF.

Jean-Francois Granjon

It's Jean-Francois Granjon from Oddo BHF. Just one question regarding your business plan you have presented us a few weeks ago. Regarding 2018, your target -- on average, $1.5 billion for the potential sales compared to $1.2 billion in 2016 and probably the same level in 2017. So this represents 25% increase for the (inaudible) in 2018. Could you give us some more color to explain this huge increase of sales taking into account the fact that the market seems to remain quite difficult in the seismic environment? So how -- can you explain why you are so positive to [expecting the] huge 25% increase for the top line next year 2018 compared to 2017?

Jean-Georges Malcor - *CGG - CEO and Director*

Yes. I would be very short, Jean-Francois. First of all, we always say that '17 will be similar to 2016 and we are not changing the guidance. So basically, there is no change in hypothesis compared to where were seeing the markets in '17. Okay. What we are saying is that for the rest of the year, we see a different mix than before, which means that we see Sercel still suffering in this market in terms of volume. But we're also saying that even if this is the -- this part of the recovery is delayed, it will come at one point, because, as I indicated in my call, we are running out of second hand equipment of existing equipment all the competitors, including ourselves. We have been using as much as we could the equipment that we had off the shelves in order to use the CapEx and reduce the cost. But at one point, it will come to an end. Streamers have to be replaced, land equipment have to be replaced. And so subset of recovery, which is slower this year than it was before, will come at one point. And that's an important point of our recovery plan for the [next future]. I remind you that Sercel is extremely low at the time being. So that's one point. The second point is on the multi-client side. The pattern that we saw in '17 with a stronger multi-client, it should continue, because, as I said, we are pretty well positioned on the key sedimentary basins, which are quite active at the time being. So those are the main 2 points of the recovery.

Operator

(Operator Instructions)

Jean-Georges Malcor - *CGG - CEO and Director*

We may take the last question, because we'll have to run into another meeting in 5 minutes. So if there was a last question, happy to take it. No?

Operator

We have no further questions at this time.

Jean-Georges Malcor - *CGG - CEO and Director*

Okay. Perfect. Okay then, so thank you very much for all of you. And take a good break, you should take some rest. And, of course, the IR team and myself will be available if you have more questions in the next few days. Bye for now.

Stephane-Paul Frydman - *CGG - CFO and Senior Executive Vice-President of Finance & Strategy*

Bye.

Operator

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