Q3 2021 Results Conference Call Analyst Coverage

Wednesday, 3rd November 2021

Introduction

Christophe Barnini

SVP Investor Relations

Welcome

Thank you. Good morning, ladies and gentlemen. Good evening, welcome to the presentation of CGG's third quarter 2021 results. We come today from Paris, where Mrs Sophie Zurquiyah, our Chief Executive Officer, and Mr Yuri Baidoukov, our Group CFO will provide an overview of the third quarter results as well as provide comments on our outlook.

Change of Financial Communication Schedule

Starting Q3, starting today, CGG is changing its financial communication schedule. We will release our financial results after market close at 17.45 Paris Time. This new financial communication schedule should be an opportunity for US and UK investors and European investors to participate more largely in the conference call with the management.

Forward-looking Statements

Let me remind you of the forward-looking statement as some of the information contains forward-looking statements, including without limitation statements about CGG's 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.

This being said, now I just want to remind you that following the overview of the third quarter, we will be pleased to take your questions.

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

Business Overview

Sophie Zurquiyah

Chief Executive Officer, CGG

Introduction

Thank you, Christophe, and good morning, ladies and gentlemen, and thank you for participating in this Q3 2021 conference call.

I am on slide five now.

Q3 2021 Business Overview

Let me start with some general comments on our market environment.

Market trends

Overall, during the third quarter the activity of our clients continued to show signs of a gradual recovery, with international oil companies increasing their production-related and near-field exploration activities. We also started to see this quarter IOCs initiating some discussion around various shorter term low carbon low-cost exploration opportunities.

National oil companies and independents remain more active in general and continue to gradually increase their activities. We operate today in a favourable macro-environment as Brent oil price has stabilised above $75 a barrel, and is expected to continue growing from that level onwards. This should continue to stimulate activity aimed at maintaining or increasing production in the near-future.

As we know, E&P companies have focussed historically on upgrading their portfolios to reduce their breakeven oil price. And now there is the additional dimension of lowering carbon intensity of reserves which should also trigger increased activity in exploration down the road and especially in the favourable macro-market environment that we currently see.

Also, as the energy transition continues to move forward, we are seeing a regained interest in gas producing areas.

Overall, while our market is still challenging, we are clearly seeing positive signals that our clients have defined their priorities and have started to resume pending activity. Along with their energy plans, digital initiatives remain at the heart of our client strategy as a source to drive increased efficiency into their value chain. These trends should support increased activity as we move into 2022 and onwards.

Business Performance

We see already that Geoscience is progressively recovering, thanks to increased demand for our superior technologies and services. While sales in Multi-client and Equipment are lumpy by nature, they were both particularly stronger this quarter, driven by higher multi-client pre-funding and solid equipment delivered of our new OBN system.

Looking forward, we are expecting a solid Q4 for our three core businesses. And overall, and as anticipated, after a very low first half of the year, we are seeing both improved revenue and profitability in H2 2021 and expect this trend to continue forward.

As you will see in our numbers, we managed through the pandemic effectively, improving our profitability for the same revenue level based on our cost reduction plan.

Earlier this year, I highlighted our initiatives focussed on divesting non-core businesses to both further streamline performance through the pandemic and ensure we could focus investment on our strategic growth and core business initiatives.

Balance Sheet

In early October, we sold our GeoSoftware business for a total cash consideration of $95 million. And the sale of the Physical asset storage business along with the sale and leaseback of our Headquarter building are both progressing well.

With expected solid fourth quarter activity, CGG is well-positioned to deliver its 2021 financial target.

Moving on to slide six.

Q3 / 9m 2021 Key Financial Highlights

Our Q3 revenue of $270 million was up 35% year-on-year and up 71% sequentially. Group segment EBITDA was $118 million, a 44% margin, due to solid business activity and sales mix. At this level, we delivered a solid $33 million operating income, representing a 12% margin. Segment free cash flow was $2 million due to lower collections of receivables during the quarter after the weak second revenue in 2021. It is a significant improvement from last year.

And now let us look at our Q3 2021 operation in more detail by reporting segment.

Operational Review

GGR key financial indicators

GGR segment revenue was stronger this quarter at $168 million, up 12% year-on-year, thanks to the progressive recovery in Geoscience and solid Multi-client sales in Q3. EBITDA margin improved to 63% and OPIN margin also improved to 18%, thanks to sales mix and our cost-saving measures which continue to generate a positive impact.

Going on to slide nine now.

Geoscience key business indicators

Q3 Geoscience external revenue of $77 million was flat year-on-year and up 5% sequentially. Geoscience continued to show progressive recovery during the quarter. Some projects that we worked on pre-COVID came back in for re-processing in anticipation of client production optimisation work. Our clients continue to value our premium products and services in complex areas and as budget constraints start to moderate, these key activities come back to us.

Backlog is up 8% year-on-year and productivity per head has increased as we get busier and more efficient.

Now, on slide ten.

Geoscience operational highlights

The recovery in Geoscience is led mainly by high-end processing of offshore marine streamer and Ocean Bottom Node data mostly in producing areas such as the Gulf of Mexico and Brazil. Seabed projects require more detailed advanced imaging for increased accuracy, and we capture a higher percentage of that market, thanks to our technology differentiation.

We have now identified a portfolio of new business opportunities beyond the core. These are maturing inside our three divisions. We have assigned dedicated resources to develop our commercial offering and we are gearing up to grow and track those businesses with KPIs.

Inside Geoscience, we classify these new opportunities under digital, energy transition, and Environmental Geoscience. And one of our key initiatives in energy transition is to lever that geology and geophysics database to offer services around the identification and characterisation of CCUS and geothermal science. And we are seeing increasing interest and sales in this area.

We are also involved in several digital and environment projects aimed at digital transformation, crowd services, and pollution monitoring. Recent projects include several digital transformation pilots with our data hub services and environmental projects which included a study focussed on the identification and quantification of micro plastic pollution on the summit of Snowdon, the highest mountain in Wales.

Going on to slide 11.

Geoscience order intake

This slide is actually an interesting zoom into Geoscience order intake which is made of high-end imaging of marine streamer and seabed data. In a CAPEX constrained environment, it is critical to our clients to have access to the more precise images that CGG imaging can provide to increase their opportunities for success.

Beyond the core, our order intake grew by 18% year-on-year, and we are excited to see traction forming around these new businesses.

Slide 12.

Advanced FWI algorithm providing superior image resolution

The Geoscience industry started in 2018, and every few years we bring a new breakthrough technology that drives the reprocessing of historical data. These breakthroughs are thanks to our unique capabilities and expertise in sophisticated algorithms and ultra-high-performance computing. Today the must-have technology is our industry unique full waveform inversion (FWI) imaging. And CGG's FWI provides very detailed structural information that was not discernible historically, as you can see this Barents Sea image.

Next one, which is 12.

Critical insight for mine waste management

Interest in our new beyond the core businesses is significantly increasing and represented more than 10% of our total bids pending at then end of September.

Today, I would like to highlight one of our business solutions which is related to the mining industry.

With our technologies combining satellite imaging and multi-physics processing we can characterise and monitor tailings storage areas which are a potential hazard and a liability for the mining company.

We successfully applied our technology on a landmark project for a global mining company using airborne electromagnetic 3D imaging over an area with 15 mining sites in Brazil which enabled the clear delineation of the dam and storage areas, providing a baseline for monitoring, as the cell sensor technology can be combined with our satellite and multi-physics capabilities to provide a robust long-term monitoring and real-time risk reduction solution.

Moving on to Multi-client now.

Multi-client Key Business Indicators

Multi-client cash CAPEX was $57 million this quarter, stable year-on-year and dedicated to marine multi-client programmes. In Q3, we had three vessels working on multi-client programmes, two on a five-month 3D multi-client programme in the Norwegian North Sea and one in Brazil on our ongoing Nebula project. We also had five reprocessing projects this quarter, including a new one in the Gulf of Mexico. The increase this quarter was partially driven by a catch up in pre-funding, taking our year-to-date pre-funding rate to 70%.

Now, on slide 15.

Multi-client operational highlights

In Brazil, we secured significant pre-funding for the ongoing Nebula programme. In the North Sea, we had two vessels and one node crew active this quarter in the North Viking Graben, which is expected to drive Q4 pre-funding.

US land activity this quarter was supported by client M&A activity, and we are seeing growing interest in US onshore gas assets. This could drive further after-sales.

In the Gulf of Mexico, CGG is mainly focussed on re-imaging projects, which in the absence of new acquisition provide a cost-effective way to improve the understanding of the subsurface for enhanced production and near-step exploration.

I move on to Equipment now, on slide 17.

Equipment Key Financial Indicators

Equipment segment revenue was $101 million, significantly up year-on-year and sequentially which is mainly driven by high volume of deliveries of our new GPR300 ocean bottom nodes. At that level of activity, EBITDA and OPIN substantially improved to 17% and 9%, respectively.

Next one.

Equipment operational highlights

Land equipment sales represented 40% of the total in Q3, as we delivered systems in various geographies, like China, Russia, North Africa and India. Marine equipment sales were $55 million, representing 54% of total sales due to scheduled delivery of 18,000 GPR300 nodes.

Our Equipment division continues to innovate and recently launched the TPS (Tuned Pulse Source). This is a purpose-built acoustic source designed to further protect marine wildlife from high frequency emissions while maintaining highly accurate and reliable results through seismic acquisition.

And finally, I am pleased to report that during the quarter, we also made the first commercial sales of our new structural health monitoring system S-lynks.

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

Financial Review

Yuri Baidoukov

Group Chief Financial Officer, CGG

Q3 / 9m 2021 Income Statement

Thank you, Sophie. Good morning, good afternoon, and good evening ladies and gentlemen, I will comment on the third quarter 2021 financial results.

Looking at the consolidated PNL on slide 20, our segment revenue was $270 million, up 35% year-on-year and up 71% sequentially. It was a very solid quarter for CGG Group driven by continuing recovery in Geoscience, significant increase in Multi-client sales and strong equipment deliveries.

GGR segment revenue was $168 million, up 12% year-on-year and up 53% sequentially. Geoscience revenue was $77 million, stable year-on-year and up 5% sequentially. Multi-client revenue was $92 million, up 26% year-on-year and up 149% sequentially. Pre-funding revenue for our Multi-client projects was $59 million, up 51% year-on-year with a pre-funding rate of 103%. Multi-client after-sales were $32 million this quarter, slightly down year-on-year. Equipment segment revenue was $101 million, up 105% year-on-year and up 113% sequentially.

The respective contributions from the Group's businesses were 28% from Geoscience, 34% from Multi-client, 62% for GGR segment, and 38% from Equipment.

Segment EBITDA was $118 million this quarter, up 127% year-on-year with a solid 34% margin. Adjusted segment EBITDA of $118 million was up 48% year-on-year. Segment operating income was $33 million, up $71 million year-on-year with a 12% margin, while adjusted segment operating income of $33 million was up $37 million year-on-year.

After IFRS 15 adjustment of $13 million, cost of debt of $27 million, taxes of $7 million, and net loss from discontinuing operations of $3 million, Group net loss was $17 million, significantly less than $93 million net loss in the third quarter of 2020.

Q3 / 9m 2021 Simplified Cash Flow

Moving to slide 21, simplified cash flow and looking at Q3 2021 segment free cash flow was positive $2 million, including $48 million negative change in working capital. Again, a significant improvement from negative $59 million in the third quarter of 2020 due to this quarter's solid increase in EBITDA.

Total CAPEX was $74 million, stable year-on-year. Industrial CAPEX was $8 million, CAPEX development costs were $7 million, and Multi-client cash CAPEX was $57 million, flat year-on-year.

After $14 million of lease repayments, zero cash cost of debt, $7 million of CGG 2021 planned cash costs, and negative $15 million free cash flow from discontinued operations, Group net cash flow was negative $34 million, significantly improving compared with negative $92 million in the third quarter of 2020.

Moving to slide 21, Group balance sheet and capital structure.

Balance Sheet at 30 September 2021

At the end of September 2021 Group liquidity amounted to $340 million, including $100 million undrawn RCF. Group gross debt before IFRS 16 was $1.22 billion and net debt was $987 million. Group gross debt after IFRS 16 was $1.35 billion and net debt was $1.11 billion. Group debt after IFRS 16 included almost $1.18 billion high-yield bonds, due 2027, $49 million of other items, and $127 million lease liabilities.

Capital employed was $2.14 billion, down $28 million from the end of December 2020. Net working capital after IFRS 15 was $153 million, decreasing from $212 million at the end of December 2020, primarily driven by a reduction in net accounts receivables, inventories and carrying provisions.

Goodwill was payable at $1.19 billion, corresponding to 56% of total capital employed. Multi-client library net book value after IFRS 15 was up at $556 million, including $495 million of marine and $60 million of land net book value. Other non-current assets were $376 million, including $221 million of property, plant and equipment, down $47 million from year-end, which included $131 million of IFRS 16 right-of-use assets, and $96 million of other intangible assets, down $20 million from year-end. Other non-current liabilities were at $136 million, down $29 million from year-end.

Shareholder's equity was $1.27 billion, including $44 million of minority interests mainly related to expanding duty[?].

Now, I hand the floor back to Sophie for an outlook of the 2021 market environment and our financial guidance.

Outlook and Guidance

Sophie Zurquiyah

Chief Executive Officer, CGG

2021 Business Outlook and Revised Financial Objectives

Thank you, Yuri.

Now, we are on slide 24.

Overall, Q3 was a solid quarter and we expect a solid Q4 as anticipated earlier in the year. In its context, we confirm our 2021 financial guidance.

Geoscience

And looking forward, Geoscience should continue its gradual recovery.

Multi-client

Multi-client has been the most affected by the current cautious environment where clients, especially the IOCs, continue to delay decisions for the future. However, we do see the early signs of improvement as there is a need for our clients to constantly review their portfolios for economics and now for their carbon footprint. I think this will drive a bit more geographical positioning and acreage grabbing, and we do see interest in our data for Q4.

Equipment

In Equipment, Q4 will see significant land equipment deliveries in North Africa. And while it is too early a prospective for 2022, it is fair to say that our clients are organising to increase their activity levels even if they remain cautious, especially when it comes to exploration. Technology and digital remain high on their agendas, and I believe the current trend will be supportive for CGG's core and growth beyond the core businesses. Our unique technology, sophisticated algorithms, high performance computing, Earth data and industry-leading sensors will play a key role in supporting the industry and its ambition through the energy transition.

Thank you for your interest and we're now ready to take your questions.

Q&A

Yurich Humelle: My question relates to marine sales equipment. It is quite impressive to see the increase in ocean bottom devices. On streamers, what is your prospect? Do you think the market, given the age of the streamers [inaudible] there should be at some point a large replacement of streamers? What is your vision of that?

Sophie Zurquiyah: Thank you Yurich for your question. You are absolutely right in saying that the streamers are getting older and older, so probably getting into the ten-year anniversary. However, I have not changed my view that the replacement cycle will be starting more into end of 2022 to 2023. I do not think the streamer replacement cycle will drive significant improvement in the marine streamer numbers in equipment for 2022.

I would say generally speaking the prices for marine acquisitions seem to be on the way up. Although, in Q4 you do not see – marine acquisition companies are not that busy. However, prices are heading in the right direction which will eventually allow those companies to make investments to replace the streamers. There is a need for that. It is just right now they do not have the CAPEX or the visibility in their business to make those investments.

I think this will come in 2023 for sure.

Yurich Humelle: Thank you very much.

Sophie Zuquiyah: Sure.

Kevin Hurry (Kepler Cheuvreux): Yes, good evening. I think it is me, Kevin, from Kepler. Can you hear me?

Yuri Baidoukov: Yes, Kevin.

Kevin Hurry: Okay, that is me, sorry for that. I have two questions, please. The first one is related to the working capital movement that you have in Q3. I guess it is related to the fact that you are delivering nodes this quarter and are getting to deliver strong volumes of equipment to Algeria[?] in Q4. I was wondering if you can give us the magnitude of this working cap movement related to Sercel[?] and how much we should expect to get back in Q4? That is the first question.

The second one related to the EBITDA of Sercel . If the, let us say, other nodes are having a positive mix effect on your EBITDA, because the performance was better than what I think everyone was expecting in terms of margin, so is the node a positive mix effect?

The last one is on the free cash flow from discontinued operations. Can you give us some details on that? Is it related to the boats[?] and then engagement that you have with your partner [inaudible]? If you can explain the free cash flow from discontinued operations? Thanks.

Yuri Baidoukov: Yes, Kevin, and good evening. I will take your questions. You will see in our financial statement that indeed this quarter we had a negative change in working capital of overall $48 million. The reason for that is, of course, actually two things. One you already mentioned, yes, indeed, obviously, we have strong deliveries of equipment in the third quarter, primarily GPR nodes. With that, of course, accounts receivable in the Equipment business went up.

However, the second element relates actually to the sequential significant increase in Multi-client sales as well. Multi-client sales increased from $37 million to $92 million. Of course, with that that is what drove overall the increase in accounts receivable.

In other words, again, it is both businesses – Multi-client and Equipment. We expect, of course, this trend to change again into the fourth quarter, so the receivables will be collected mostly during the fourth quarter of the year.

Now, regarding the EBITDA after-sales, again, there is definitely a positive impact from the sale of nodes. Why? Because it is electronics. As you well know, the revenue mix of after-sales, the mechanical products like vibrators have a lower gross margin while anything electronics are higher, and nodes fall into this higher gross margin category. Therefore, yes, we had a positive impact.

And your third question was what, Kevin?

Kevin Hurry: The free cash flow from discontinued operations, Yuri.

Yuri Baidoukov: Right, sorry. Free cash flow from discontinued operations actually, it is the usual story. Primarily, it relates to the idle vessel compensation. However, also in the third quarter in 2021, we had an impact of a legacy tax settlement in Mexico of $14 million.

Kevin Hurry: Okay, so the vast majority of the $15 million is related to a legacy tax settlement and perhaps related to the compensation that you have to pay to a shareholder for the –

Yuri Baidoukov: No. Because if and when we pay compensation to shareholders, it does not go through discontinued operations.

Sophie Zurquiyah: It will go into the P&L.

Yuri Baidoukov: Of Multi-client, yeah.

Kevin Hurry: Okay. Okay, thanks for that. Thanks a lot.

Sophie Zurquiyah: Sure. Thank you, Kevin.

Yuri Baidoukov: Thank you, Kevin.

Mick Pickup (Barclays): Hi, good day everybody. A couple of question if I may. Firstly, obviously you made a couple of announcements this quarter where you have been investing jointly with some of your peers. Can you just talk about investing in cooperation with others. Does that signal what we're going to see going forward? Is it a sign of capital tightness in the industry or what exactly is driving that at the moment?

Sophie Zurquiyah: You are actually absolutely right, there is more collaboration. I do believe the future will be more collaborative. If you look at our clients, they have been collaborating for a while for a long time. And especially when it came to activities that were more risky in exploration particularly, they come and form consortiums. So, I think we have not been good at mimicking that from our space.

One of the announcements that we made is in Suriname, and that is going to be three of us investing, and that is about risk management. The second one that you would have seen is around Versal, and that is a bit of a different one. It is about delivering the data in an efficient way to our clients, multi-client data, and giving them access to their entitlement.

Recognising that, if you want, is a bit of a backbone for a multi-client but is not a differentiator. It is not something that we believe – TGS, PGS or us – should differentiate on, and rather we should join forces to just do the best product to serve our clients. It is more about putting together resources to better serve our clients which want efficient data delivery into their platform.

The other one you would have seen is the collaboration on CCUS with PGS, and we felt it would make sense to join forces with them in the North Sea, because we are the two companies that have the largest datasets and it was easier to collaborate on something new like the CCUS. Thus, we though why do we not do something together and see what we can provide to the industry together, knowing that we have got the best datasets to do that.

So a bit of different drivers, but generally speaking, risk management, efficiency, and yes, business synergies would be the drivers, but different angles.

Mick Pickup: Okay, very clear. Another question, can I just ask about conversations you are having with your clients? Obviously, the gap between breakeven and the oil price is the biggest we've even seen at the moment. My US colleague today, we have to know the word 'supercycle', so going in to Q4, there is the seasonal spend of year-end. Are you getting the sense that that is much more likely now with the current environment and work coming back?

Sophie Zurquiyah: I would say it is really strange times because oil price is super high. All of our clients are very profitable and generating very strong cash flow. I do not have a sense that they are going to be moving from their capital discipline. Now, you have to keep in mind they are well below their guidance on CAPEX spend which means they have a lot of, quote-unquote, 'spare money' when it comes to year-end.

I would say there are some signals that they want to discuss year-end deals because they have been into the discipline of gathering the needs from various departments and various groups and assets geographically into year-end and trying to negotiate a larger deal, so I think that will certainly happen, and I mention that, a positive signal. I just don't know the magnitude of it, and how much of that money they will actually release, because again they are well below their run rate of spending. That means they have got a lot of money. However, I do not know if they will spend it all or if they will keep some under their shoulders, or keep it to just give back to the shareholders through other forms.

Mick Pickup: Magic. A quick one, if I just finish off. Pre-funding above 100%, obviously, very good. Is that just prudence on what you are investing or is it the reprocessing comes with higher pre-funding? What is driving that 100-plus percent?

Sophie Zuquiyah: We should never look at the pre-funding on a quarter-to-quarter basis. I did mention last quarter that there was a deal we were working on that had moved into Q3. Thus, in reality that pre-funding should have come in earlier in Q2, which would have made H1 stronger and this one more normal. It is just sometimes it is a bit lumpy and the sequencing makes it happen that way. Typically, there is some level of catch up on pre-funding when it comes to the later months of the year, which is what is happening.

You should not read into this particular quarter. It was driven by a catch up of pre-funding that should have really come last quarter. What it does say, though, is our pre-funding year-to-date is 70%, and will probably go better than that in Q4. It shows that we are investing in the right places and that there is interest in our projects, which is essentially Norway and Brazil.

Mick Pickup: Magic, all very clear. Thank you very much.

Sophie Zurquiyah: Sure.

Yurich Humelle (C&C Market Solutions): Okay. My question relates to CCUS. You mentioned that in terms of diversification away from oil and gas and that is something mostly your American companies are pointing to very seriously. What kind of services would it involve in terms of – you mention diversification. However, once it does, would there be a need of payment monitoring and those sort of services for CCUS?

Sophie Zurquiyah: Yeah. Thank you for that question. You will find in the CCUS very similar ingredients to the exploration and production. Exploration is going to be similar ingredients and that is what we aim to do with our datasets. In the North Sea particularly that is going to be CCUS, is identification and characterisation. You could do this using Geoscience at large, so definitely will involve geology and geophysics, and that geophysics will either be acquired on a proprietary basis or will be in a multi-client basis, so it will involve data sales one way or another or data acquisition and processing activity. Then there will be perhaps a more important component of monitoring because that will be driven by regulatory requirements.

Of course, if you think about it, you are injecting CO2 perhaps at high rates and you have a risk of fracking the rock or breaking the integrity of the reservoir or the storage area and therefore there will have to be mechanisms to monitor, I would think, some permanent perhaps combined with the likes of the four Ds that we see in the oil and gas industry. However, there will definitely be a component of permanent monitoring which we intend to position on.

Yurich Humelle: Thank you.

Sophie Zurquiyah: Thank you.

Meyla Belimu-Carmetal (BlackRock): Yeah, hi. Hi, good afternoon. Thank you for taking my question, just one from my side. I just wanted to check on your non-recurring charges. I seem to have a number of $32 million for 2021 as an adjustment to EBITDA from $42 million in 2020. Would you confirm if that is still the number I should be looking for, because I think year-to-date, obviously, there were no adjustments reported for year-to-date, were I think $3 million in total. How should I think about that? Thank you.

Yuri Baidoukov: Meyla, yes, good afternoon. Are you looking at cash flow or P&L?

Meyla Belimu-Carmetal: Sorry, that is P&L.

Yuri Baidoukov: Yeah. So the P&L side, we had a credit actually early in the year from the reassessment of provisions for Social Plan France. Basically, we do not have the significant kind of difference between the EBITDA and adjusted EBITDA.

Sophie Zurquiyah: Yeah. I would say, this year is a fairly clean year in terms of non-recurring cost, because last year we took all the provision – either the provision or the cash costs of essentially a large headcount reduction and we had non-recurring on some of the adjustments on Multi-client data library. However, since the beginning of the year, we have not made any adjustment. Actually, if anything, like Yuri mentioned, we got a credit because we took a larger provision for a Social Plan in France and you do not know the exact number until the people actually leave, because it depends on how long actually people take to find another job. Thus, we actually had a fairly significant credit that we took, so our adjusted EBITDA is actually lower than our EBITDA.

Yuri Baidoukov: Yeah. And basically yes, there's a difference between the two on the nine months year-to-date basis of $2 million, so $195 million EBITDA and $193 million adjusted EBITDA. When it comes to operating income, we have basically an operating income of $14 million for the first nine months versus adjusted operating income of $6 million. In other words, again, there is plus $9 million positive or credit effect related to the provisions and charges that we took last year.

Meyla Belimu-Carmetal: Got it. Then I should not expect any meaningful adjustment in Q4 or in 2022?

Yuri Baidoukov: No, not when it comes to P&L. And then on the cash flow you will see that, obviously, we will continue to pay those severance costs, and they go through the reduction in liability. In other words, before the change in working capital.

Meyla Belimu-Carmetal: Okay. Would you remind us what those are?

Yuri Baidoukov: Again, on the cash flow statement, basically, we see over the first nine months the change in NRC liability of negative $19 million, so basically, that is what happened on the year-to-date basis.

Meyla Belimu-Carmetal: Sorry, for the 2021 in total and 2022, what are your expectations?

Yuri Baidoukov: Well, 2022 should be close to zero, because basically there might be a small tail end in France, but pretty much all of those severance costs are paid this year.

Meyla Belimu-Carmetal: Okay. And then a similar number to Q3 and Q4 I assume or slightly lower but not increasing.

Yuri Baidoukov: No, it is not increasing, exactly.

Meyla Belimu-Carmetal: Okay. Great, thank you very much.

Yuri Baidoukov: In fact, it is gradually decreasing, that is what is happening.

Meyla Belimu-Carmetal: Got it. Thank you.

Baptiste Lebacq (Oddo-BHF): Yes. Good afternoon, thanks for taking my question, very quick question for me. In today's announcement we see some bottlenecks like in semiconductors but also in some different raw mats. For you is it a risk for your Equipment division and what is the most, let us say, risky equipment for you, we should focus on? Second question, still linked to this point, there is also some increase of raw mat costs. Do you think that it is possible for you to preserve your margin in this context – I always think about Equipment division? Thank you.

Sophie Zuquiyah: Yes. Thank you, Baptiste, a very good question and it is something we are looking at very carefully as we are planning into 2021. I will just say generally speaking on the equipment side, we plan probably a year ahead, and so we place the orders for critical parts quite early in the cycle and that is why we have not felt any issues this year of this bottleneck on semiconductors or increases in raw materials.

We are starting to see some tension on electronic equipment, not necessarily the raw materials, that is not a concern to us, and is something we are working to resolve. We do think that if we get affected for a period of time next year, it would be a short period and we would be able to catch up during the year. We are planning to be able to deliver what we need to deliver next year, basically, and that is mainly because we anticipated a lot of the orders. Does that answer your question?

Baptiste Lebacq: Yes, thank you. Regarding the increased cost of input and your margin and your ability to preserve your level of margin and speaking with clients, are you [inaudible] or not?

Sophie Zurquiyah: Yeah. We are not seeing yet. Again, like I said, we place the orders quite ahead of time, so we have not seen any inflation on the raw materials on what we buy. The issue is more about availability of some electrical components and that we will be working on. I would think right now, we are not seeing impact on our margin. Our margins are more dependant on the mix of products that we deliver. As Kevin pointed out earlier, or someone asked the question on the GPR. The GPR has a good margin, so it really depends on what we're selling rather than the inflation on the raw material.

Baptiste Lebacq: Thank you.

Sophie Zurquiyah: Sure. And we are in the process, by the way, of doing our budgeting, so I will definitely know more on the next call. However, directionally, we are not seeing a big deal of inflation of the raw material.

Matt Zohecky (Morgan Stanley): Hey, thank you very much. I have a quick question about the cash flow generation and deleveraging in the remaining part of 2021 and 2022. Should we assume that $95 million you are going to receive from Geoscience will go towards deleveraging? That is the first question.

The second question would be, going into the future and into 2022, as the activity, as you mention, is picking up, how should we think about cash flow generation, i.e., the pre-funding levels are relatively low at the moment and do you expect them to go back quickly towards the 95-100% level? That would obviously help a little bit. I mean, that is basically the key question.

Sophie Zurquiyah: Yes. Thank you for your question. I will take the question on pre-funding. If you remember, historically, we have always committed to a 75% pre-funding, which we felt offered the right balance of finding the best projects, because the best projects are not necessarily the ones that are the most pre-funded in early stages. We wanted to make sure we had the mix. The high pre-funding is not necessarily a sign of a good performance of Multi-client. I believe it needs to be over that 75%. However, 100% might actually be too high, meaning, you're not taking enough risks on your portfolio or you are not investing enough.

Now, of course, what we want, and what we need, is more after-sales, and that is what we have been short on from – it started last year because of the COVID crisis and into this year.

That is where you are seeing the discipline of the Its[?] and our clients play, is they are just not buying data that is on the shelf.

When or if we do see the after-sales pick-up, obviously, this is a direct cash generation and there will be falling through all the way into cash. I would say this year, we have committed to be cash-positive and so that will, unfortunately, not allow us to deleverage. And 2022, I think is too early to say which way it is going to pan out.

Do you want to add anything?

Yuri Baidoukov: Under the nuance of covenants and terms of conditions, we have until April of next year to decide whether to apply this generated cash against the 10% repayment that we built into the bond, right, 10% of equipment at 103%. As Sophie said, we will be looking at next year. Once we have more visibility, then we will make those decisions.

However, it will apply to deleveraging us indirectly. In other words, obviously, the cash on balance[?] reduces [inaudible].

Matt Zohecky: Yeah, that's what I meant. Thank you very much, that's helpful.

Sophie Zurquiyah: Thank you.

Yuri Baidoukov: Thank you.

Sophie Zurquiyah: Alright. Well, thank you very much. It's been a great call, many more questions than in previous calls. I think we were right to change the time and the scheduling. Thank you very much for your questions. Thank you for the interest in CGG and I look forward to meeting some of you in the next few days.

Yuri Baidoukov: Thank you, everybody.

Sophie Zurquiyah: Thank you. Have a good evening

Yuri Baidoukov: Have a good evening and good afternoon.

[END OF TRANSCRIPT]