

# ANSWERS TO WRITTEN QUESTIONS



## Questions of Mr. Stéphane Lucchini (340 shares) (1/4)

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- **Question 1 : Given the information at the disposal of the board of directors in 2015 third quarter, was the company in a position to fulfil its financial obligations on the long term and should the company have anticipated the current financial restructuring instead of the rights issue of January 2016?**
- At the end of 2015, at the time we were preparing the 2016 capital increase, our vision and expectations, largely shared by the experts and the other actors of the industry were the following:
  - the barrel price was to bounce back to a range of \$65-70 at the end of 2017- mid 2018;
  - after the decrease of our annual revenues by 20% in 2014 and close to 30% in 2015, the 2016 revenues were to decrease by close to 25% to stabilize in 2017 and come back to a level close to 2015, and improve in 2018; and
  - on such basis, the group debt leverage (ratio net debt over EBITDA) was to remain under 5x all year long in 2016 and then decrease and come back below 3x mid-2018;
  - We therefore had a consistent vision at the end of 2015 of (i) the outlook of a market recovery with a rebound end of 2016 - beginning of 2017, (ii) the extension of maturity of our various debts- with first installments extended to 2019 (Senior Notes and TLB) and 2018 for the RCF (subject to the completion of our capital increase) and (iii) a need of new money to finance our transformation plan;
  - The sizing of this capital increase (approximately €350 million in gross amount, corresponding to net proceeds for the company of €338 million) was thus determined on the basis of the expected expenses to be incurred as a result of our industrial restructuring: close to US\$200M for the additional measures announced in 2015 - close to US\$100M for the measures already launched ( end of 2014/beginning of 2015);



## Questions of Mr. Stéphane Lucchini (340 shares) (2/4)

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- **Question 1 (cont'd):**
  - Our assumptions at the time, in line with the consensus of the experts and the other companies of the industry, led us to think that, with our new businesses' balance, we would be able to generate enough cash flows to ensure the service of our financial costs and meet our financial maturities;
  - This financial outlook had been shared, at the time, with our lenders and was deemed credible enough to agree on a new covenant profile. Besides, on such basis, the banks had agreed to underwrite our capital increase.
- However the market conditions finally turned out to be much more unfavorable than anticipated:
  - (i) the annual revenues' decrease in 2016 was finally closer to 45% ( instead of 25%),
  - (ii) the 2016 EBITDA was far below our expectations;
  - (iii) the leverage ratio reached 7.1x at the end of 2016; and
  - (iv) globally, over the 2016- 2018 period, we believe that the missing volume of cumulated revenues compared to our expectations, would reach approximately \$2 billion, corresponding to a missing volume of EBITDA - and consequently a corresponding deterioration of our liquidity level - close to \$1 billion over the period.

Given this serious imbalance of our financial condition which was very difficult to absorb, the company decided to initiate a financial restructuring process.



## Questions of Mr. Stéphane Lucchini (340 shares) (3/4)

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- **Question 2 : what are the reason why certain directors did not subscribe to the 2016 capital increase?**
  - Non-French residents were not allowed to subscribe from a regulatory standpoint. Anne Guérin represents BPI which subscribed to the capital increase.
- **Question 3: Is it relevant to keep the variable compensation policy of CGG senior executives given the financial situation of the company?**
  - The variable part of the remuneration is included in the remuneration package of CGG senior executives. CGG has a general variable remuneration policy for its employees.
  - The CEO target variable remuneration is based for 2/3 on financial objectives and for 1/3 on individual objectives.
  - The financial criteria are the following (25% weighting for each criteria ): Group free cash flow, Group external revenues, Group EBIT and EBITDA minus tangible and intangible investments made during the fiscal year. These criteria are reviewed by the Appointment-Remuneration committee,
  - The board of directors sets demanding objectives consistent with the objectives that the group wants to reach. As a result of the demanding objectives that have been set over the last three years, the global achievement rate ranged from 37% to 76% of the target amount of the variable remuneration over such period.
  - The variable remuneration thus depends on the achievement of particularly important objectives over the last years given the objectives to restructure the group.



## Questions of Mr. Stéphane Lucchini (340 shares) (4/4)

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- **What is the level of achievement of the quantitative criteria based on budget objectives?**
  - In 2016, based on the achievement of the personal and financial objectives, the global achievement rate was 61% of the target amount of variable remuneration. The achievement rate of the financial objectives are not disclosed as they are commercially sensitive.



## Questions of Mr. Guillaume Pajot (1,512 shares) (1/3)

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- **Question 1 : Why are you still eligible to Deferred Settlement Services (“Service à règlement différé – SRD”)**
  - Since December 29, 2015 as our market cap is below €1 billion, Euronext has included us in the SRD long compartment. As a result, it is impossible to short CGG shares on Euronext platform.
- **Question 2: Why don’t you communicate positively on your outlook?**
  - As a listed company our financial communication is very regulated;
  - We must inform the financial markets on our actual outlook and we must be prudent and realistic as to the very volatile market conditions in which we operate;
  - Regarding our public releases with respect to our commercial contracts, as we operate on highly competitive segments, very often our customers do not want us to communicate. We already give a lot of information on our business which are used by our competitors.
- **Question 3 : Why don’t you try to combine with a strong player in the oil industry such as Total or Technip?**
  - In our current context, there appears to be no appetite for a consolidation or a verticalisation on our clients’ side.



## Questions of Mr. Guillaume Pajot (1,512 shares) (2/3)

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- **Question 4: Why do you let so many rumors on your company spread on trading forums?**
  - We cannot prevent people from expressing themselves.
  - The policy of the company is to communicate through official and regulated channels.
- **Question 5: Remuneration :**
- **Why is the departure indemnity of the Chairman of the board partially assessed on a ratio based on the evolution of CGG share price over the evolution of SBF 120 over the same period although CGG is no longer included in the SBF 120 index.**
  - The Chairman of the Board does not benefit from any departure indemnity.
  - With respect to the departure indemnity of the CEO, the performance condition linked to the SBF 120 or OSX was modified in January 2017 as it was not relevant anymore. The new performance condition relates to the average achievement rate of the objectives of the annual variable remuneration which must reach at least 40% over a three-year period.
- **Why don't you pay directors' fees in shares since you are requesting financial efforts from your shareholders to support your capital and group sustainability?**
  - Directors cannot benefit from the legal mechanism allowing the allocation of free shares or stock options unless they are also CEO or chairman of the board. In accordance with section 225-44 and 225-45 of the French commercial code directors' fees can only be paid in cash.
- **Why does the "quantitative objectives" only represent 25% of the variable remuneration to the extent that the achievement of the qualitative part (75%) is less easy to assess?**
  - The Variable remuneration of the CEO is subject to the achievement of personal objectives for one third of the variable remuneration and financial objectives for two thirds of the variable remuneration. These objectives are quantifiable



## Questions of Mr. Guillaume Pajot (1,512 shares) (3/3)

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- **Why are the performance units not 100% paid in shares?**
  - Since the decision of our Board of Directors on June 23, 2016, our variable multi annual remuneration system is based on performance units replacing the former free shares subject to performance conditions. This system allows the company to link it more closely this remuneration item to the combined performance of the CGG share and the group economic performance as a whole and in the midterm.

